

## **Department of Audit**

2000 Annual Report to the Tennessee General Assembly



Comptroller of the Treasury, Authorization No. 307161. This public document was promulgated at a cost of \$3.69 per copy.



## STATE OF TENNESSEE COMPTROLLER OF THE TREASURY

State Capitol Nashville, Tennessee 37243-0260 (615) 741-2501

John G. Morgan Comptroller

December 29, 2000

The Honorable Don Sundquist, Governor
The Honorable John S. Wilder, Speaker of the Senate
The Honorable Jimmy Naifeh, Speaker of the
House of Representatives
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

Ladies and Gentlemen:

The 2000 annual report of the Department of Audit is submitted herewith in accordance with Section 4-3-304 of *Tennessee Code Annotated*.

The Department of Audit conducts audits or ensures that audits are conducted of state, county, and municipal governments; utility districts; internal school funds; and other local government authorities and agencies. Audits are also performed of state grants to nongovernmental organizations and of numerous federal programs for state and local governments.

In submitting this report, I would like to express my appreciation to all those who made possible the results reported, particularly the members of the General Assembly and the staff of this office.

Respectfully submitted,

John G. Morgan

Comptroller of the Treasury

Jon G. Morga

JGM/ab

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## **Comptroller of the Treasury**



John G. Morgan Comptroller of the Treasury

In January 1999, John G. Morgan was elected Comptroller of the Treasury by the Tennessee General Assembly. Born on January 4, 1952, in Nashville, Tennessee, Mr. Morgan graduated from Austin Peay State University in 1974. He did graduate work at Louisiana State University from 1974 to 1976 and entered state government as a research assistant for the Legislative Fiscal Review Committee in 1976.

From 1978 to 1980, Mr. Morgan was a research assistant in the Department of Finance and Administration, and from 1980 to 1982, was an administrative assistant to the State Treasurer. In 1982, he began working in the Office of the Comptroller of the Treasury as Assistant Director of Bond Finance. He served as Director of Bond Finance from 1983 to 1987 and in 1987 also became Assistant to the Comptroller.

In October of 1987, Mr. Morgan left state government and became Vice President, Director of Public Finance, for Third National Bank in Nashville. In February of 1989, he returned to state government as Executive Assistant to the Comptroller of the Treasury. Mr. Morgan is a former board member of the Tennessee Municipal League Risk Management Pool, Tennessee Municipal Bond Fund, and Nashville Thermal Transfer Corporation. Currently he is chairman of the National State Auditors Association Performance Audit Committee. He is married to Donna Morgan, and they have two sons, Brian and Kevin.

## **Comptroller Emeritus**



William R. Snodgrass Comptroller Emeritus

After serving as Comptroller of the Treasury from 1955 to 1999, Mr. Snodgrass decided not to seek another term of office. On January 13, 1999, by Joint Resolution of the 101st General Assembly, he was named Comptroller Emeritus for his unparalleled contribution to the government and citizens of Tennessee. He continues to serve as a senior policy advisor for the Office of the Comptroller.

## **Comptrollers of the Treasury**

Daniel Graham	1836-1843
Felix K. Zollicoffer	1843-1849
B.H. Sheppard	1849-1851
Arthur R. Crozier	1851-1855
James C. Luttrell	1855-1857
James T. Dunlap	1857-1861
Joseph S. Foster	1861-1865
S.W. Hatchett	1865-1866
G.W. Blackburn	1866-1870
E.R. Pennebaker	1870-1873
W.W. Hobbs	January to May 1873
John C. Burch	May 1873-1875
James L. Gaines	1875-1881
James N. Nolan	1881-1883
P.P. Pickard	1883-1889
J.W. Allen	1889-1893
James A. Harris	1893-1899
Theo F. King	1899-1904
Frank Dibrell	1904-1913
George P. Woollen	1913-1915
John O. Thomason	1915-1923
Edgar J. Graham	1923-1931
Roy C. Wallace	1931-1937
John W. Britton	1937-1938
Marshall E. Priest	1938-1939
Robert W. Lowe	1939-1945
Jared Maddux	January to April 1945
Sam K. Carson	April 1945-1946
Jared Maddux	1946-1949
Cedric Hunt	1949-1953
Jeanne S. Bodfish	1953-1955
William R. Snodgrass	1955-1999
John G. Morgan	1999-

## **Department of Audit**

John G. Morgan

Comptroller of the Treasury

Richard V. Norment, CIA, CGFM

Assistant to the Comptroller for County Audit

Arthur A. Hayes, Jr., CPA, JD, MBA, CFE, CGFM, DABFE, DABFA Director of State Audit

Dennis F. Dycus, CPA, CFE, CGFM

Director of Municipal Audit

## **State of Tennessee**

#### **Don Sundquist**

Governor

John S. Wilder

Speaker of the Senate and Lieutenant Governor

#### Jimmy Naifeh

Speaker of the House of Representatives

#### **Riley Darnell**

Secretary of State

John G. Morgan

Comptroller of the Treasury

**Steve Adams** 

State Treasurer

Paul G. Summers

Attorney General and Reporter

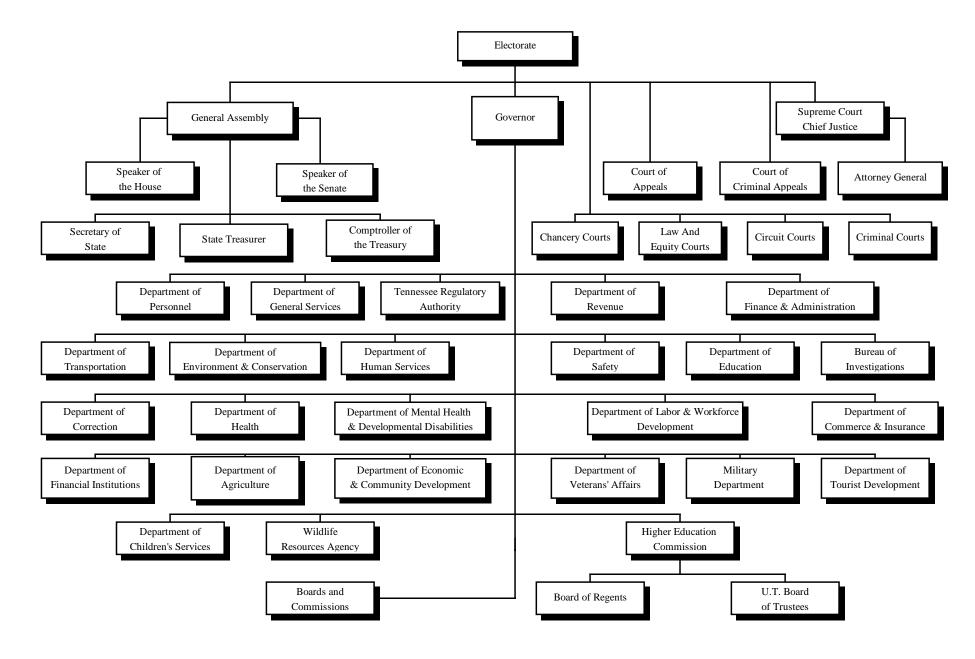
C. Warren Neel

Commissioner of Finance and Administration

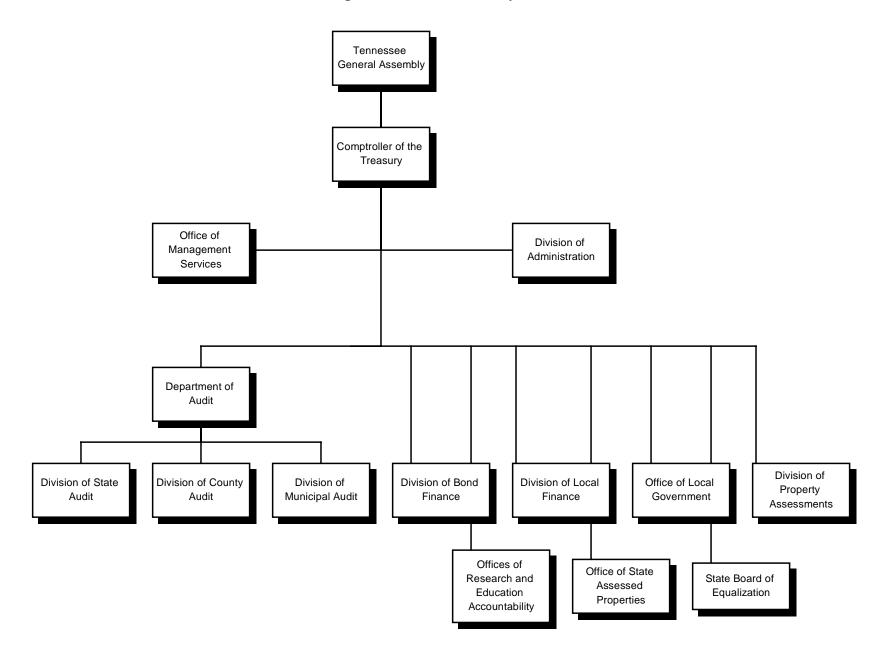
E. Riley Anderson

Chief Justice of the Supreme Court

## State of Tennessee



## Office of the Comptroller of the Treasury



## Office of the Comptroller of the Treasury

The Comptroller of the Treasury is a constitutional officer elected by the General Assembly for a two-year term. State statutes prescribe the Comptroller's duties; among these duties are the audit of state and local governmental entities and participation in the general financial and administrative management of state government. The Department of Audit performs the audit function for the Comptroller. He also serves *ex officio* as a member of various committees, boards, and authorities.

Advisory Commission on Intergovernmental Relations

**Baccalaureate Education System Trust** 

**Board of Claims** 

**Board of Equalization** 

**Board of Standards** 

**Building Commission** 

Child Care Facilities Corporation

Competitive Export Corporation

Consolidated Retirement System Board of Trustees

Council on Pensions and Insurance

**Funding Board** 

Governor's Council on Health and Physical Fitness

Health Facilities Commission

**Higher Education Commission** 

Housing Development Agency

**Information Systems Council** 

Library and Archives Management Board

Local Development Authority

Local Education Insurance Committee

Local Government Insurance Committee

**Public Records Commission** 

**Publications Committee** 

School Bond Authority

Security for Public Deposit Task Force

Sports Festivals, Inc.

**State Capitol Commission** 

State Insurance Committee

State Trust of Tennessee Board of Directors

**Student Assistance Corporation** 

**Tuition Guaranty Fund Board** 

Utility Management Review Board

Water/Wastewater Financing Board

In addition to the Department of Audit, the Office of the Comptroller includes nine other divisions.

#### **Division of Administration**

The Division of Administration provides overall direction, coordination, and supervision to the various divisions within the Comptroller's Office. The division also provides research on particular topics involving state finances and assists various committees and members of the General Assembly in their review of state finances, including review, analysis, and drafting of proposed legislation.

#### Office of Management Services

The Office of Management Services provides the various divisions of the Comptroller's Office financial, administrative, and technical support and services in the areas of accounting, budgeting, payroll and personnel, information systems, contracting matters, and printing. The office assists the Comptroller in fulfilling his responsibilities involving policies, plans, reports, special projects, and contract review and approval. The office also provides the Comptroller technical and analytical assistance in support of his responsibilities as a member of certain boards and commissions, such as the State Building Commission, Board of Standards, and Information Systems Council. The office assists in recruiting auditors and accountants for all audit divisions and is responsible for developing the Affirmative Action Plan. The office has lead responsibility for overseeing the continuous improvement projects for the Comptroller's Office.

#### **Division of Bond Finance**

The Division of Bond Finance is responsible for the issuance and repayment of debt by the State Funding Board, the Tennessee Local Development Authority, and the Tennessee State School Bond Authority and for the issuance of debt by the Bond Finance Committee of the Tennessee Housing Development Agency.

The proceeds of these debt obligations are used to finance general state infrastructure; provide loans to local governments for water and sewer systems, resource recovery, public works projects, airports, and rural fire equipment; provide loans to certain nonprofit corporations for mental health, mental retardation, and alcohol and drug facilities; construct revenue-producing facilities at the state's public higher education facilities; and provide single-family mortgages at below market interest rates to low- and moderate-income persons.

The division, jointly with the Department of Environment and Conservation, administers the State Revolving Funds, which provide loans to local governments for sewer works and water works. The division, jointly with the Department of Transportation, administers the Utility Relocation Loan Program, which provides loans to local governments for relocation of utilities required by highway construction. The division administers the loan guarantee program of the small and minority business telecommunication business assistance program under the Department of Economic and Community Development.

#### **Division of Local Finance**

The Division of Local Finance has as its principal responsibility the task of providing assistance to local governments in Tennessee. Among these local governments are counties, municipalities, utility districts, special

school districts, and emergency communications districts. The division's responsibilities, as prescribed by state statutes, include the following:

- Approving certain debt obligations of local governments and approving the budgets of these local governments
- Approving and filing the official statutory bonds required by law for elected and appointed local government officials
- Approving certain investments of local governments in accordance with procedures established by the State Funding Board
- Receiving and filing information reports on debt obligations issued by local governments and reporting such information to the Tennessee General Assembly annually

In addition, the division assists in the preparation of legislation affecting local governments; prepares fiscal notes on legislation presented to the General Assembly concerning local governments; and prepares an annual report of the financial operations of counties and municipalities in Tennessee as reported in their audited financial statements on file in the audit divisions of the Office of the Comptroller. Local governments call on the division daily for assistance in each area of responsibility.

#### Office of Local Government

The Office of Local Government provides information and assistance to local government officials and to the legislature as needed. The office maintains precinct maps, assists local governments with reapportionment and redistricting, and acts as liaison with the Bureau of the Census in preparing for the decennial census.

#### Division of Property Assessments

The Division of Property Assessments assists local governments in the professional administration of property tax programs and provides data

processing services for assessment and tax billing. In accordance with state statutes governing reappraisal, the division monitors county visual inspection and reappraisal programs, provides technical assistance to counties during reappraisal programs, and performs current value updating programs. In addition, the division performs biennial appraisal ratio studies, updates property ownership map originals, develops and conducts educational and training courses for assessment officials, and assists the State Board of Equalization in maintaining the Assessor Certification Program. The division also administers the Tax Relief Program.

#### **State Board of Equalization**

The State Board of Equalization is a quasi-judicial and policy-making body responsible for the review and equalization of property tax assessments; the promulgation of assessment guidelines, rules, and manuals; and the professional education and training of assessment officials. The board's duties further include hearing and acting on appeals relating to property tax assessments from the Office of State Assessed Properties (public utilities) and the county boards of equalization, reviewing certified tax rates, and reviewing applications for various property tax exemptions.

## Offices of Research and Education Accountability

The Office of Education Accountability monitors the performance of Tennessee's elementary and secondary school systems and provides the General Assembly reports on a variety of education topics. The office

assists the House and Senate education committees as requested and provides the legislature an independent means to evaluate the effects of increased expenditures in education. The office also serves as a general resource for the General Assembly on national education trends.

The Office of Research conducts research projects on state and local government issues at the request of the Comptroller and the General Assembly. The office also assists the State Funding Board in analyzing the annual economic forecast prepared by the Center for Business and Economic Research. The office assists the Comptroller with preparation of fiscal notes for the Fiscal Review Committee, monitors legislation, and analyzes the budget. The Office of Research has also helped provide general staff support to a number of special legislative committees and commissions.

## Office of State Assessed Properties

The Office of State Assessed Properties is responsible for the annual appraisal and assessment of all public utility and transportation properties as prescribed in *Tennessee Code Annotated*, Section 67-5-1301. These assessments are certified to counties, cities, and other taxing jurisdictions for the billing and collection of property taxes.

#### **Authority for Post-Audit**

The General Assembly created the Department of Audit in 1937. Authority to audit state and county governmental entities is contained primarily in Section 4-3-304, *Tennessee Code Annotated*. The department is required to

perform currently a post-audit of all accounts and financial records of the state government . . . in accordance with generally accepted auditing standards and . . . such procedures as may be established by the comptroller . . .

make annually, and at such other times as the general assembly shall require, a complete report on the post audit . . .

certify to the fund balance sheets, operating and other statements, covering the condition of the state's finances, as prepared by the

department of finance and administration, or by the state treasurer, before publication of such statements . . .

serve as a staff agency to the general assembly, or to any of its committees, in making investigations of any phase of the state's finances . . .

make annually an audit of all the records of the several counties of the state . . .

perform economy and efficiency audits, program results audits and program evaluations . . .

require that audits to be performed by the internal audit staffs of grantees or the internal audit staffs of state departments, boards, commissions, institutions, agencies, authorities or other entities of the state shall be coordinated with the office of the comptroller of the treasury and . . . be prepared in accordance with standards established by the comptroller . . .

require that all persons, corporations or other entities who receive grants from or through this state shall cause a timely audit to be performed, in accordance with auditing standards prescribed by the comptroller . . .

Statutory authority to perform limited reviews of state governmental entities, usually called Sunset performance audits, is provided by Section 4-29-101 et seq., *Tennessee Code Annotated*.

All municipalities are required to have annual audits as provided in Section 6-56-105, *Tennessee Code Annotated*. Sections 7-82-401, 9-3-111, and 49-2-112 require that all utility districts, school activity and cafeteria funds, and various municipal enterprises that handle public funds be audited annually.

#### **Audit Standards**

Sections 4-3-304 and 6-56-105, *Tennessee Code Annotated*, give the Comptroller responsibility for ensuring that the audits of counties and municipalities are prepared in accordance with generally accepted government auditing standards and other minimum standards established by the Comptroller.

#### **Audit Follow-up**

Section 8-4-109, *Tennessee Code Annotated*, requires a follow-up of audits of state departments, agencies, and institutions. Audited entities are required to respond to audit findings and recommendations, within six months after the release of the audit report, concerning the effective and efficient management of accounts, books, records, or other evidence of financial transactions. If state entities fail to implement audit recommendations within a reasonable time or fail to provide other reports required by this statute, the Comptroller is required to notify the chairmen of the Senate and House Finance, Ways and Means Committees.

## **Department of Audit**

The Department of Audit comprises three divisions—State Audit, County Audit, and Municipal Audit—and employs approximately 300 people. Each division is administered by a director. The three directors are responsible for coordinating the audit function within the department and for addressing concerns and issues in auditing.

The Department of Audit is a post-audit agency. As such, it audits an entity's financial statements; an entity's compliance with applicable statutes, rules, and regulations; and/or its past record of efficiency and effectiveness at the end of a fiscal period.

The basic purpose of post-audits is to identify and report past errors and recommend future improvements. Pre-audits, in contrast to post-audits, are performed within an entity by its own employees to prevent errors, detect problems, and suggest improvements. The most important distinction between pre-audits and post-audits is that the latter is organizationally independent of the audited entity. In this respect, a post-audit agency in government is comparable to an independent public accounting firm in the private or business sector.

Because independence is so important in a post-audit agency, the Department of Audit is in the legislative branch of state government. The department is accountable to the General Assembly and provides information to assist the legislature in overseeing the use of public funds and the efficient operation of government.

The department's professional staff perform a wide variety of audit work requiring different types of training and experience. Therefore, members of the staff have degrees in fields such as accounting, public administration, law, political science, criminal justice, education, and nursing. More than 40 of the professional staff have advanced degrees. The department encourages its employees to pursue professional certifications such as Certified Public Accountant, Certified Information Systems Auditor, Certified Fraud Examiner, and Certified Government Financial Manager. As of June 30, 2000, 122 employees of the department had received one or more professional certifications. The appendix identifies those employees who passed a certification exam during the year ended June 30, 2000, and also includes a list of all employees holding professional certifications. This range of experience gives a broad perspective to the department's audit work.

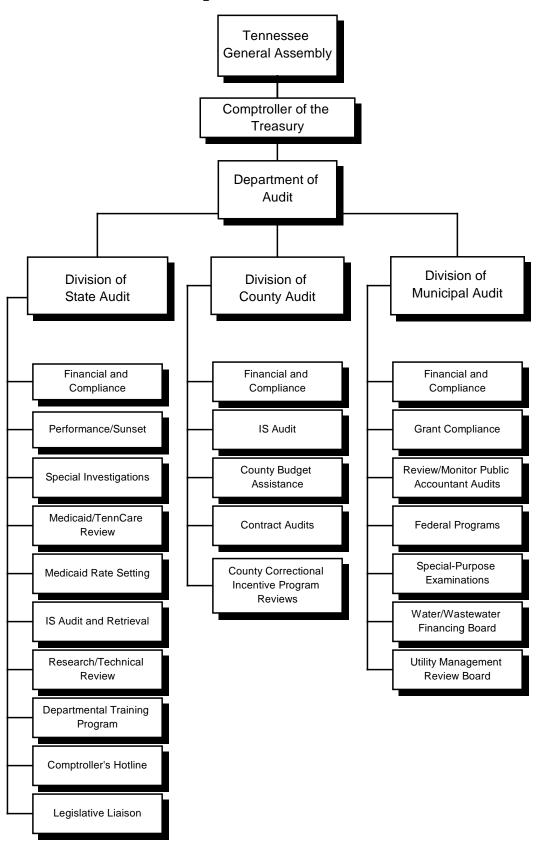
Members of the staff also participate in the following professional organizations:

- American Institute of Certified Public Accountants
- American Society for Public Administration

- Association of Government Accountants
- Information Systems Audit and Control Association
- Government Finance Officers Association
- Institute of Internal Auditors
- Association of Certified Fraud Examiners
- Tennessee Society of Certified Public Accountants

Participation includes attending and contributing to annual meetings, serving as officers, and sitting on committees and project task forces.

## **Department of Audit**



## **Improving the Audit Process**

The Comptroller of the Treasury and the Department of Audit strive to preserve the integrity and improve the quality and usefulness of the audits of governmental entities and grant recipients at all levels. To accomplish this goal, the department works closely with state and national organizations and professional associations concerned with governmental accounting, auditing, and financial reporting.

Richard V. Norment, Assistant to the Comptroller for County Audit, is the national president-elect of the Association of Government Accountants and is a member of the Executive Committee. Mr. Norment is a member of the Government Finance Officers Association's (GFOA's) Special Review Committee for the Certificate of Achievement for Excellence in Financial Reporting program. In addition, Mr. Norment is president of the Tennessee Government Finance Officers Association.

Arthur A. Hayes, Jr., Director, Division of State Audit, is chair of the National State Auditors Association's Human Resources Committee and past chair of the Audit Standards and Reporting Committee. He is a member of the Program Committee of the Southeastern Intergovernmental Audit Forum and a member of the Governmental Committee of the Tennessee Society of CPAs. In addition, Mr. Hayes is a member of the Professional Advisory Council of the School of Business, Tennessee State University, and a former member of the Executive Board of the Government Finance Officers Association of the United States and Canada (GFOA). Both a certified public accountant and a licensed attorney, Mr. Hayes is a member of the Association of Certified Fraud Examiners, the Association of Government Accountants, the American Board of Forensic Examiners, and the American Board of Forensic Accountants. He has authored numerous articles for auditing and accounting professional publications.

Dennis F. Dycus, Director, Division of Municipal Audit, serves as a member of the Board of Regents of the Association of Certified Fraud Examiners, a faculty instructor for the association on a national basis, and as a director of the Middle Tennessee Chapter.

Other staff serve on committees of the following national organizations:

- Association of Government Accountants
   National Executive Committee—Barbara White, Division of State Audit
   Regional Vice President—Deborah Loveless, Division of State Audit
- National State Auditors Association
   Performance Audit Committee—Deborah Loveless
   Quality Control Review Committee—Deborah Loveless
   Single Audit Committee—Gerry Boaz, Division of State Audit
   Information Technology Committee—Dan Willis, Division of State
   Audit

Training Committee—Dan Willis
Audit Standards and Reporting Committee—Gerry Boaz

Government Finance Officers Association
 Executive Board—Barbara White
 Committee on Accounting, Auditing, and Financial Reporting—Barbara White

 Special Review Committee—Barbara White

## Accounting and Financial Reporting Standards

The Governmental Accounting Standards Board (GASB) has been the authoritative accounting and financial reporting standard-setting body for state and local governmental entities since June 1984. The Division of State Audit's technical analyst attends the board's meetings as an

observer and writes and distributes a report to members of the National Association of State Auditors, Comptrollers, and Treasurers.

Like its commercial-sector counterpart, the Financial Accounting Standards Board, the GASB operates under the auspices of the Financial Accounting Foundation and is located in Norwalk, Connecticut. As of June 30, the GASB had issued 36 authoritative standards, two concepts statements, six interpretations, and nine technical bulletins, as well as several exposure documents from which standards are developed.

GASB has completed a multi-year project to revise governmental financial reporting. The Comptroller was integrally involved through each phase of this most comprehensive project. The final standard was issued in June 1999.

## Generally Accepted Government Auditing Standards

The Department of Audit performs its audits in accordance with generally accepted government auditing standards as set forth by the Comptroller General of the United States in *Government Auditing Standards* (Yellow Book). These standards apply to financial and performance audits. The Yellow Book incorporates the generally accepted auditing standards for field work and reporting and attestation standards set forth by the American Institute of Certified Public Accountants.

The Department of Audit conducts its single audit in accordance with the Single Audit Act as amended by the 1996 Single Audit Act amendments and Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* 

#### **Quality Control Review**

The department internally monitors the quality of audit work through its Quality Control Review Committee, composed of senior staff from each of the department's three divisions. The quality control review consists of three phases:

• Review of policies and procedures

- Review of compliance with professional standards and departmental policies and procedures
- Review of compliance with Working Paper Techniques

The Quality Control Committee conducts a review of the department's policies and procedures biennially. An Audit Review Subcommittee is appointed biennially to review audits to determine whether the department has complied with professional standards and departmental policies and procedures. This Audit Review Subcommittee consists of audit managers and senior auditors who serve on a rotating basis. This review is similar to the external quality control review program used by the National State Auditors Association. Quarterly, the Quality Control Committee appoints a Working Paper Review Subcommittee. This committee consists of senior auditors who serve on the committee on a rotating basis to review the department's compliance with *Working Paper Techniques*. The results of the committee's reviews are communicated to all managerial personnel in the department.

In addition to the Quality Control Review Committee, each division has an established process whereby each audit is reviewed prior to release for adherence to the standards. The department also undergoes an external review of its quality control system. Section 8-4-102, *Tennessee Code Annotated*, states:

Previous to the convening of each biennial general assembly, the speaker of the senate and the speaker of the house jointly may contract for the services of an independent public accounting firm to audit or review the operations of the office of the comptroller, or may call upon the director of the division of state audit to review with them a current audit of the comptroller of the treasury. The speakers may appoint a committee of the general assembly for the purpose of such review.

The Speakers directed the Department of Audit to undergo a quality assessment review under the auspices of the National State Auditors Association. The most recent review was performed in August 2000 by certified public accountants and other professionals holding executive-level posts in federal and state governments. The purpose of the review was to ensure that the department is meeting its responsibility to perform audit work in accordance with generally accepted government auditing standards.

The report of the quality assessment review for the year ended June 30, 2000, rendered an unqualified opinion on the department's system of quality control. In the opinion of the quality assessment team, "the Department of Audit's system of quality control for audits issued from July 1, 1999, through June 30, 2000, was operating effectively and

provided reasonable assurance of compliance with generally accepted government auditing standards." (See Appendix for opinion report.)

#### **Training**

The Department of Audit ensures its auditors receive the required continuing professional education to meet certification standards and *Government Auditing Standards*. Auditors participate in the department's in-house training program as course developers, presenters, and participants. Volunteer instructors from throughout the department present some 27 courses in the department's in-house program. These courses range from "Auditing for Fraud" to "Planning, Monitoring, and Supervising an Audit" to "Audit Command Language."

The department's commitment to training extends to auditors and accountants throughout state government. Therefore, many of the inhouse classes are open to other agencies, and one or more seminars open to state accounting and auditing personnel are held each year.

All training is offered with the assistance of the Department of Audit Advisory Committee on Training, whose members represent all divisions and sections of the department. The 14 members are volunteers who work to improve the training program by surveying the staff's training needs, suggesting new classes, recommending ways to improve existing classes, and upgrading program administration. The training coordinator chairs the committee.

For the nineteenth year, the Department of Audit and the National Association of State Auditors, Comptrollers, and Treasurers cosponsored the annual Governmental Auditor Training Seminars for public accounting firms performing governmental audits in Tennessee. The seminars were held in Cleveland, Jackson, Morristown, and Nashville.

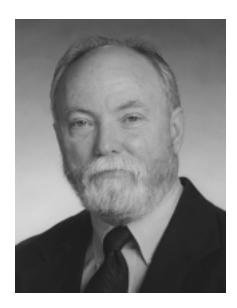
## **Local Representation in Professional Organizations**

The Department of Audit fully supports its staff's active participation in local professional organizations, recognizing that these organizations contribute to the staff's continued growth.

The department plays a significant role in the activities of the Nashville chapter of the Association of Government Accountants. Kathy Anderson, Division of State Audit, is secretary. Members of the chapter's executive committee include Greg Worley from the Division of County Audit, and Misty Cutshall and Dan Willis from the Division of State Audit. In addition to holding top offices, department staff are well represented in the Nashville chapter's organization, serving on almost every committee.

Bob McCloud, Division of State Audit, is a director of the Middle Tennessee Chapter of the Association of Certified Fraud Examiners. Dan Willis, Division of State Audit, serves on the Technology Development Committee of the Middle Tennessee Chapter of the Information Systems Audit and Control Association.

## **Division of State Audit**



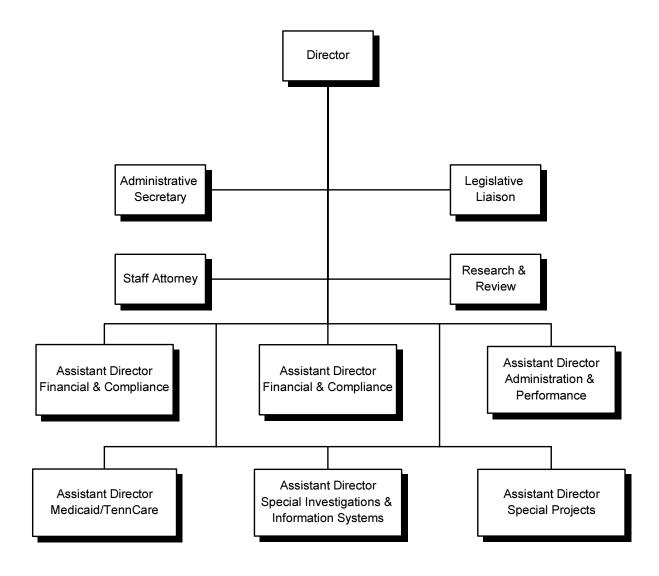
Arthur A. Hayes, Jr., CPA, JD, MBA, CFE, CGFM Director

The Division of State Audit conducts financial and compliance audits, performance audits, and investigations. It also performs special studies to provide the General Assembly, the Governor, and the citizens of Tennessee with objective information about the state's financial condition and the performance of the state's many agencies and programs. This division thus aids the legislature in ensuring that state government is accountable to the citizens of Tennessee. In fulfilling this audit function, the division issued 133 reports during the year ended June 30, 2000; an additional 76 audits were in progress at June 30, 2000.

This division includes five sections: financial and compliance, Medicaid/TennCare, performance, special investigations, and information systems. Highlights of the work each section performed from July 1, 1999, through June 30, 2000, are presented in this chapter. Complete reports are available upon request or on the Internet at www.comptroller.state.tn.us/sa/reports/index.html.

In addition to auditing, the division reviews and comments on exposure drafts from professional organizations and conducts technical research and training. The division also assists the Comptroller in the formulation of state policy and regulations, either directly by consulting with representatives of state agencies or indirectly by submitting comments about proposed policies and procedures.

## **Division of State Audit**



## Financial and Compliance



Charles K. Bridges, CPA, CGFM Assistant Director



Edward Burr, CPA, CGFM Assistant Director

This section conducts financial and compliance audits of all state departments, agencies, and institutions.

A major endeavor of the financial and compliance section was the *Single Audit of the State of Tennessee* for the year ended June 30, 1999. This audit covered the operations of the state as a whole and was conducted in accordance with Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. A significant part of this project was the audit of the *Tennessee Comprehensive Annual Financial Report*, which covers all the state's funds and account groups, including college and university funds.

In addition to the single audit report, separate audit reports were issued on the Department of the Treasury, the Office of the Comptroller of the Treasury, departments administering major federal programs, and units of the government not subject to the control of the centralized accounting system: state universities, community services agencies, the Tennessee State School Bond Authority, the Tennessee Local Development Authority, the Tennessee State Veterans' Homes Board, and the Tennessee Housing Development Agency. The smaller departments and agencies of the government and the community colleges, technical institutes, and state technology centers are audited on a biennial cycle.

The separate audits of the departments, agencies, and institutions are not meant to serve as organization-wide audits as described in the Single Audit Act as amended in 1996 and Office of Management and Budget Circular A-133. They do, however, serve as segments of the

organization-wide audit of the State of Tennessee; therefore, they include the necessary tests for compliance with applicable laws, regulations, contracts, and grant agreements and the required consideration of the internal control.

All financial and compliance audits are conducted in accordance with generally accepted government auditing standards. The section performs the following general procedures as part of the financial and compliance audit process:

- Reviews the working papers from previous audits and applicable regulations, rules, policies, procedures, laws, and legal opinions.
- Considers the internal control at the entity, including a review of information systems, and determines the nature, timing, and extent of tests to be performed.
- Reviews the original budget and subsequent budget revisions and compares them to actual revenues and expenditures.
- Obtains and analyzes explanations for significant variances.
- Reviews the internal control in the computerized accounting and management information systems.
- Tests to determine the appropriateness of expenditures and the entity's accountability for revenues and cash receipts.
- Tests to substantiate assets, liabilities, and fund balances.
- Reviews federal and state grants to determine the entity's accountability for grant funds and compliance with applicable laws, rules, and regulations.
- Reviews management's representations regarding financial transactions, supporting accounting data, and other disclosure items.
- Evaluates all evidence obtained during the audit process in order to formulate an opinion on the financial transactions and to prepare findings on significant problems.

#### **Results of Audits**

During the year ended June 30, 2000, the division published 98 financial and compliance audit reports. On June 30, another 50 audits were in progress. The following are summaries of some of the published audit reports.\*

<sup>\*</sup>Findings repeated from prior audits are marked with an asterisk

## Single Audit of the State of Tennessee

The Single Audit of the State of Tennessee for the year ended June 30, 1999, was conducted in accordance with Office of Management and Budget (OMB) Circular A-133. The *Single Audit Report* reflected federal awards of \$5.9 billion. The results of the audit of compliance of the State of Tennessee with the compliance requirements applicable to each of the state's major federal programs indicated that the State of Tennessee did not comply with requirements regarding Activities Allowed or Unallowed, Eligibility, and Special Tests and Provisions that are applicable to its Medical Assistance Program.

The noncompliance with Eligibility requirements was also considered to be material to the general-purpose financial statements of the State of Tennessee. Furthermore, the State of Tennessee did not comply with requirements regarding Special Tests and Provisions that are applicable to its Child Support Enforcement program. The results of auditing procedures also disclosed other instances of noncompliance with compliance requirements applicable to major federal programs that are required to be reported in accordance with OMB Circular A-133.

As a result of testing the state's compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs, costs of \$13,073,925 were questioned for the year ended June 30, 1999.

The consideration of internal control for the State of Tennessee disclosed numerous reportable conditions, including several that were considered to be material weaknesses in relation to the state's general-purpose financial statements and/or major federal programs.

The single audit included an audit of the state's general-purpose financial statements. This audit resulted in an unqualified opinion on the general-purpose financial statements of the State of Tennessee for the year ended June 30, 1999. The audit also determined that the Schedule of Expenditures of Federal Awards was fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

## **State Departments and Agencies**

## Tennessee Advisory Commission on Intergovernmental Relations

For the Years Ended June 30, 1999, and June 30, 1998

## **Documentation Not Maintained for Financial Integrity Act** The commission has not maintained documentation of its annual evaluation of internal accounting and administrative controls, as required by the Financial Integrity Act of 1983.

## **Department of Agriculture** For the Years Ended June 30,

1998, and June 30, 1997

## The Division of Plant Certification Has Not Enforced Department Rules

The Division of Plant Certification did not enforce rules developed to ensure the quality of Tennessee's nursery stock.

## The Division of Animal Health Does Not Adhere to Its Rules Regarding the Oversight of Tennessee Hatcheries

The division does not ensure that hatcheries either are inspected semiannually or are fully and adequately participating in the National Poultry Improvement Plan.

## Department of Children's Services

For the Year Ended June 30, 1999

## Children's Services Inappropriately Requested and Received Reimbursement From TennCare for Children Not Eligible for TennCare Services\*

As noted in the prior two audits, and despite management's concurrence with the findings, Children's Services continued to request and receive reimbursement from TennCare for medical expenditures on behalf of children who were not eligible for TennCare because they were in locked facilities. In addition, the current audit revealed that Children's Services is also billing for other categories of ineligible children. This includes children not in state custody; children in state custody but on runaway status; children in the Hometies program; individuals over the age of 21; and children under the age of three.

# Because Children's Services Does Not Have a Reasonable System to Determine Medical Treatment Costs Associated With Providing Services to Children in the State's Care, the State May Have Overbilled the TennCare Program for Treatment and Failed to Maximize Federal Dollars for Room and Board Costs in the Title IV-E Program\*

As noted in the prior audit, the Department of Children's Services does not have a reasonable system to determine medical treatment costs associated with providing services to children in the state's care. Children's Services purchases goods and services (such as room and board, treatment, and education) for eligible children. The department's current procedure for billing the TennCare program does not provide for a standard treatment rate for each level of care for the children in state custody. According to Medicaid/TennCare regulations, TennCare reimbursements must be based on actual costs. If the department has not determined billing rates based on actual costs, the TennCare program may be overbilled, and other federal revenue (Title IV-E) may not have been maximized for room and board costs.

## Since 1993, Children's Services Has Not Collected Overpayments; Uncollected Overpayments Totaling at Least \$1,195,745.66 Are Due From Foster Care and Adoption Assistance Parents\*

As noted in the five previous audits, from July 1, 1993, to June 30, 1998, Children's Services still has uncollected overpayments due from foster care and adoption assistance parents. As of June 1999, the department's records indicated an outstanding accounts receivable balance for these parents totaling \$1,195,745.66, a decrease of only \$29,388.10 (2.5%) since June 1998. In addition, Children's Services continued to overpay foster care and adoption assistance parents during the audit period.

#### Controls Over Disbursements Were Still Weak\*

As noted in the five previous audits covering the period July 1, 1993, to June 30, 1998, Children's Services did not have sufficient controls to ensure that disbursements were properly processed. Problems included lack of supporting documentation and insufficient approvals.

## Status Changes for Foster Children Are Still Not Processed Promptly\*

As noted in the five previous audits, which covered the period July 1, 1993, to June 30, 1998, case managers did not update the Children's Plan Financial Information System (ChipFins) when changes in status for foster children occurred, resulting in overpayments.

#### Case Files Do Not Contain Adequate Documentation Tracking the Services Provided, Progress, or Movement of the Child

The department did not have adequate documentation in each child's case file showing the services provided to the child, the progress of the child, or the movement of the child. In 7 of 60 case files tested (11.7%), there were substantial gaps in time between case recordings documenting the progress of the children. Time lapses between entries in case notes ranged from 50 to 245 days. One case file did not contain case recordings from August 1998 to November 1998 and from January 1999 to May 1999.

## The Department Does Not Have Adequate Property Management Controls

The department did not perform a complete inventory to ensure that all equipment was properly accounted for during the fiscal year. The department did not maintain accurate subsidiary inventory records of laptop computers, peripheral equipment, and other portable equipment. In addition, the department did not report lost or stolen equipment to the Comptroller of the Treasury, and did not have the items removed from the inventory and accounting records.

## The Department Did Not Process Journal Vouchers Promptly, Resulting in Lost Interest on Amounts That Were Billed to the Federal Government\*

As noted in the prior three audits, journal vouchers (used to record expenditure and revenue transactions between state departments) were not always processed promptly. The data the department uses to derive administration costs that it bills to TennCare is compiled from random moment sampling on a quarterly basis. Therefore, the department bills for administration costs on a quarterly basis. The state is losing interest income on and the use of state money used to fund federal expenditures.

## The Department Continues to Issue Duplicate Payments and Overpayments to Vendors; \$181,025.12 Was Returned or Refunded Voluntarily by Vendors\*

As noted in the five previous audits covering the period July 1, 1993, to June 30, 1998, the Department of Children's Services issued many

duplicate payments and overpayments to vendors for goods and services provided to children. During the year ended June 30, 1999, vendors voluntarily made over 160 refunds totaling \$113,946.79 and returned 276 original checks totaling \$67,078.33.

#### The Department Committed Funds Without Approval

Since July 1, 1999, the Department of Children's Services committed state and federal TennCare funds before it had a contract with the Department of Health, Bureau of TennCare, to provide services. This contract serves as the legal instrument governing the activities of the Department of Children's Services as they relate to TennCare and specifies the scope of services, grant terms, payment terms, and other conditions.

#### The Department Established Improper and Ineffective Employer-Employee Relationships\*

As noted in the prior audit, the Department of Children's Services has entered into contracts with community services agencies (CSAs) to assist in implementing various state programs, such as the Child Protective Service Program, Adoption Assistance Program, Foster Care Program, Juvenile Justice Services Program, and the Family Crisis Intervention Program. Through these contracts, CSA employees are directly supervised by state officials. A report issued by the Child Welfare League of America stated that this practice does not work in some regions and that there is no guarantee that these relationships would continue if the current players leave either agency. These relationships also create inherent problems for the DCS supervisory personnel in that they have less direct control over the performance of CSA case managers.

## The Department Did Not Uphold Its Fiduciary Duty to Properly Administer and Account for the Trust Fund Accounts of Children Receiving Federal Benefits\*

As noted in the prior audit, the department did not uphold its fiduciary duty to properly administer and account for the trust fund accounts of children receiving federal benefits. The trust fund accounts consist mainly of money received from the U.S. Social Security Administration (SSA) for supplemental income, as well as payments received from parents and from U.S. Veterans Administration, Miners, and Railroad benefits. The money in each individual's trust fund account may be used to reimburse the state for expenditures made by the state on behalf of the child. Management received a report from the Public Consulting Group dated June 22, 1999, and was in the process of evaluating the recommendations it contained during the current audit. However, during the year ended June 30, 1999, these funds were still not being properly accounted for by the department.

#### The Department Should Have an Exit Interview Policy

The Department of Children's Services (DCS) does not have a policy to conduct exit interviews when employees leave the department. Not

conducting exit interviews could result in employees not returning state identification badges, keys to office buildings, and sensitive equipment. Also, employee access to the state's accounting systems and to DCS's in-house information systems might not be canceled promptly after termination.

## The Accounting for the Social Security Administration Trust Funds Is Not Done Monthly for Each Child\*

As noted in the prior two audits, covering the period July 1, 1996, through June 30, 1998, the accounting for the Social Security Administration trust funds is not done monthly for each child. Because the department is not recording receipts and expenses monthly and is not monitoring the child's account balance, the department does not use current SSI funds to pay for current expenses of the child's care.

The CORS System Currently in Place and the New TnKids Computer System, Which Has Not Been Implemented as Scheduled, Do Not Ensure Data Integrity and User Accountability\* As noted in the four previous audits covering the period July 1, 1994, to June 30, 1998, the Client Operation and Review System (CORS), which records the profiles of children in state custody and matches these with the facilities providing care, does not ensure data integrity and user accountability. Phase one of the TnKids computer system was not implemented until June 1999, and that was only in the Southeast Region. Furthermore, the review of the TnKids system disclosed that any user with update access can add, change, or delete client information across the state without any record of the change.

#### Department Employees' Access to the State's Computer Accounting Systems Was Not Adequately Controlled

The department did not promptly cancel terminated employees' access to the State of Tennessee Accounting and Reporting System (STARS). Twenty-nine of 312 people listed as having access to Children's Services' accounts in STARS (9%) were no longer employees of the department as of July 7, 1999. These persons had been terminated from employment or transferred to other departments from seven days to four years prior to the date of the listing. Two of the 312 people listed as having access to Children's Services' accounts in STARS (0.6%) have never worked for Children's Services but have worked for other departments, and 10 (4%) have neither worked for the department nor for the State of Tennessee. In addition, several instances were noted where employees were granted access to accounting systems and there were no security authorization forms on file.

## The Department Has Improperly Managed State Cash by Not Charging the Appropriate Federal Grant at the Time the Initial Expenditure Transaction Is Made\*

As noted in the four previous audits covering the period July 1, 1994, to June 30, 1998, the Department of Children's Services pays expenditures with state dollars initially and later reallocates the expenditures to the appropriate federal grant(s), creating significant time lapses between

disbursements of state funds and actual drawdowns of federal funds. As a result, the state is losing interest income on and the use of state money used to fund federal expenditures.

## The Department's Memphis Region Violated Policies and Procedures and Sound Internal Control Principles Relative to Daycare Placements

Our review determined that the department's Memphis region violated policies and procedures and sound internal control principles relative to daycare placements. As a result, the state paid \$38,052.30 for daycare services provided to 17 ineligible recipients. Furthermore, daycare centers served an additional 35 ineligible recipients for eight weeks, resulting in a loss to the daycare centers of approximately \$20,160.

## Office of the Comptroller of the Treasury

For the Year Ended June 30, 1999

## Medicaid/TennCare Section Did Not Comply With Interdepartmental Contract Provisions

Contractual requirements to provide audit services for the Medicaid/TennCare programs were not met. Additionally, services were provided before the contract was approved.

## **Department of Correction**

For the Years Ended June 30, 1998, and June 30, 1997

## TRICOR Needs a Functional Cost Accounting System\*

TRICOR management has not formulated a system development plan to implement a fully operational cost accounting system in a timely manner.

TRICOR Quarterly Profit and Loss Statements Have Not Been Sent to the Designated Officials in Accordance With State Law\* TRICOR management has not provided the quarterly profit and loss statements of TRICOR operations to the Comptroller of the Treasury or the Commissioner of Finance and Administration in accordance with Section 41-22-123(b), *Tennessee Code Annotated*.

#### TRICOR Does Not Have a Disaster Recovery Plan

TRICOR management has not developed a disaster recovery plan to provide continuity of services in the event any of its data processing facilities are damaged or destroyed.

## **Controls Over TRICOR Finished Goods Inventories Were Inadequate**

TRICOR management did not ensure that inventory control practices were observed at the central warehouse.

## TRICOR Employees Failed to Properly Verify Inventory Deliveries and to Properly Maintain Vehicle Maintenance Records at the Cold Creek Correctional Facility Farm

The review at the TRICOR farm operation at the Cold Creek Correctional Facility also revealed that TRICOR purchasing policies and procedures were not followed and that equipment maintenance records were incomplete.

## Adequate Controls Over the Perpetual Inventory Recordkeeping System Were Not Implemented Consistently\*

The Department of Correction has not ensured the uniform implementation of adequate controls over warehouse perpetual inventory records throughout the correctional facilities.

## The Department Has Not Complied With the Documentation Requirements of the Approved Maintenance Benefits Housing Policy

Department of Correction personnel occupying state housing have not submitted the documentation required by the approved maintenance benefits policy.

## Possible Malfeasance and Resolution of Investigations Were Not Reported to the Comptroller of the Treasury

The Director of Internal Affairs did not notify the Office of the Comptroller of the Treasury of initial indications of employee malfeasance as required in *Tennessee Code Annotated*.

#### Signature Authorization Forms Were Not Properly Approved

The commissioner and fiscal officer did not review and sign any of the signature authorization forms for the department. Also, employees other than those in the central office did not sign the name of the department head or fiscal officer, and the forms were not updated annually in some cases.

## The Department Did Not Submit Its Annual Report in a Timely Manner

The Department of Correction submitted its annual report for the fiscal year ended June 30, 1996, 17 months past the date required. Additionally, the department had not submitted the annual reports for the fiscal years ended June 30, 1997, and June 30, 1998, to the Governor as of April 1, 1999, 18 months and six months, respectively, after the mandated deadlines.

#### **Court System**

For the Years Ended June 30, 1998, and June 30, 1997

## The Appellate Court Clerk's Billing and Cash-Receipting Controls Are Inadequate\*

All steps of the appellate court cost billing process have to be completed manually because the computerized billing system was never modified to accommodate the specific needs of the Appellate Court Clerk's office. The manual process increases the possibility that cases may be billed late or not at all; also, delinquent receivables may go unnoticed. Procedures undertaken to collect delinquent court costs and to collect and report delinquent litigation taxes were inadequate. Cash-receipting weaknesses, including failure to write cash receipts and make timely deposits, were noted.

## The Administrative Office of the Courts Did Not Provide Sufficient Guidance to Judges Who Received Federal Drug Court Grants

The Administrative Office of the Courts failed to provide guidance to judges on proper procedures for recording and accounting for federal grants. Several judges applied for and received grants from the U.S.

Department of Justice for planning and implementation of drug courts; one judge deposited the grant money in a personal banking account.

# The Administrative Office of the Courts Violated Contracting Procedures for the Tennessee Court Information System

The Administrative Office of the Courts signed contracts with several vendors to procure computer hardware and develop software programs for the Tennessee Court Information System project. However, the contracts were signed for the state only by the administrative director. By law all such contracts should be submitted to the Comptroller of the Treasury for approval.

### ISSUE FOR LEGISLATIVE CONSIDERATION County Funding of Certain State Judges' Offices and the Provision of Salary Supplements to Certain Employees

Currently, county governments provide varying levels of support to state judges; some counties make no provision for the operation of the judges' offices while others provide office space, office supplies, utilities, and reimbursement of certain travel expenses. In addition, some county governments provide salary supplements to individuals employed in certain judges' offices. These salary supplements are paid through the county's payroll system and these employees receive varying levels of county benefits; some employees have been allowed to participate in county insurance and retirement plans, while others have not.

The presence of both state and county funding sources increases the risk that the same expense item could be submitted for reimbursement to more than one funding source, whether intentionally or as a result of errors. The officials responsible for approving payments at the state and county levels do not have a mechanism to determine what expenses have also been paid by another funding source. The General Assembly should consider requiring any county funding of the state judges' offices, except for office space provided in county-owned facilities, to be remitted to the state and then paid through the state system.

### Delta Human Resource Agency

For the Year Ended June 30, 1998

### **Deposits Not Adequately Collateralized**

The agency did not adequately monitor the balance of collateral securities pledged. As a result, the agency's deposits were undercollateralized 64 days, an average of \$45,256.73.

### **Department of Education**

For the Year Ended June 30, 1999

# Weak Internal Controls Over Expenditures for the Education Edge Project

Internal controls over expenditures for the Education Edge project are weak. As a result, proper documentation was not always obtained for expenditures and an informally authorized employee was allowed to approve expenditures. When no controls exist, payments may be made for goods or services that were not received.

# **Department of Employment Security**

For the Year Ended June 30, 1999

### The Department Did Not Effectively Review the Allowability of Costs Charged to the Trade Adjustment Assistance Program

Invoices, receipts, and other documentation supplied by vendors in requests for reimbursements of Trade Adjustment Assistance (TAA) training costs were not reviewed to ensure reasonableness, necessity, and adequate documentation.

#### **SPECIAL INVESTIGATIONS**

### Improper Authorization of Benefits and Solicitation of a Kickback

The department did not have a systematic process to promptly review claims that were denied and later improperly approved and paid.

### Weaknesses in Supervision and Monitoring Enabled a Department Manager to Abuse His Position

A Nashville Special Projects Office manager used state office space, time, and resources for unauthorized purposes.

# **Department of Finance and Administration**

For the Year Ended June 30, 1999

# The Tennessee Insurance System Has Significant Problems Which Caused TIS and STARS Not to Reconcile\*

Daily activity recorded in the Tennessee Insurance System (TIS) does not agree with the corresponding State of Tennessee Accounting and Reporting System (STARS) accounting transactions, nor can it be reconciled.

### The Division of Mental Retardation Services (DMR) Did Not Provide Adequate Monitoring of Medicaid Home and Community Based Services

DMR must make certain assurances as to the health and welfare of recipients and of financial accountability as part of their contract with TennCare. DMR did not comply with the contract requirements.

Claims for Services Provided to the Mentally Retarded and Developmentally Disabled Have Not Been Paid in Accordance With the Home and Community Based Services for the Mentally Retarded and Developmentally Disabled Waiver (HCBS)

DMR has paid HCBS waiver claims that were unallowable because they were for services that were not provided.

# STARS Program Changes Were Not Properly Documented or Approved by Management\*

The State of Tennessee Accounting and Reporting System (STARS) program changes were not properly documented and approved.

### Recordkeeping for Equipment Is Inadequate\*

Clover Bottom Developmental Center has not performed its annual inventory and does not maintain accurate property records.

### **Department of Health**

For the Year Ended June 30, 1999

# **Top Management Must Address TennCare's Administrative and Programmatic Deficiencies**

The audit revealed many serious internal control deficiencies that have caused or exacerbated many of the TennCare program's problems.

### TennCare Eligibility Verification Procedures Not Adequate\*

For the past five years, TennCare has failed to implement effective eligibility procedures for uninsured and uninsurable enrollees. Eligibility determinations were not performed adequately, consistently, or timely; TennCare had no eligibility policies and procedures manual; and coordination and monitoring of the eligibility process was not adequate.

# TennCare Management Information System Lacks the Necessary Flexibility and Internal Control\*

Management of the Bureau of TennCare has not adequately addressed critical information system internal control issues. This has contributed to a number of other findings in this report.

### TennCare Has Not Ensured the Department of Children's Services Payment Rates Are Reasonable and Approved by the Health Care Financing Administration\*

TennCare has not ensured the Department of Children's Services has established federally approved Medicaid treatment rates for services provided for children in state custody.

# TennCare-Related Activities at the Department of Children's Services Not Adequately Monitored\*

TennCare has not adequately monitored the Department of Children's Services. Although TennCare recognized the need for a strong monitoring effort and has contracted with the Department of Finance and Administration to provide this service, the monitoring effort still needs improvement.

### **Authority Delegated to the Division of Mental Retardation Services in the Department of Finance and Administration**

TennCare has delegated authority for eligibility determinations and authority to exercise administrative discretion for the Medicaid Home and Community Based Services Waiver to the Division of Mental Retardation Services in the Department of Finance and Administration in violation of the *Code of Federal Regulations*, Title 42, Part 431, Section 10.

# Communication Between the Department of Children's Services and TennCare Has Been Inadequate, Resulting in Questioned Costs of Over \$9 Million

TennCare has paid the Department of Children's Services for services that were outside the scope of its agreement with the Bureau of TennCare during the year ended June 30, 1999.

# Allowable Rates for TennCare Mental Health Services Improperly Raised\*

As a condition of the TennCare waiver, the state was allowed to continue paying for children's mental health services on a fee-for-service basis at the rates in existence prior to TennCare. During fiscal year 1995, however, the allowable amount for children's mental

health services was raised for inflation. TennCare has not provided written approval from the Health Care Financing Administration for this action.

### TennCare Did Not Ensure Adequate Monitoring of the Medicaid Home and Community Based Services

The TennCare Bureau did not ensure that the Division of Mental Retardation Services complied with its contract monitoring requirements.

### Monitoring of the Medicaid Waiver for the Home and Community Based Services for the Mentally Retarded Was Not Adequate

The TennCare Bureau's monitoring of the Home and Community Based Services Waiver for the Mentally Retarded and Developmentally Disabled under Section 1915(c) of the Social Security Act (HCBS waiver) is inadequate to provide the federally required assurances of health and welfare and of financial accountability.

### Claims for Services Provided to the Mentally Retarded and Developmentally Disabled Were Not Properly Paid

TennCare has allowed other state departments to contract with and to pay Medicaid providers in violation of the terms of the Medicaid Home and Community Based Services for the Mentally Retarded and Developmentally Disabled Waiver.

### The TennCare Bureau Did Not Amend Its Cost Allocation Plan

The Medicaid cost allocation plan has not been amended to cover the administrative costs associated with the Home and Community Based Services for the Mentally Retarded and Developmentally Disabled Waiver program.

### TennCare Has Not Ensured an Adequate Process Is in Place for Approval and Review of Services for the Medicaid Home and Community Based Services for the Mentally Retarded and Developmentally Disabled Waiver

TennCare has not ensured the Division of Mental Retardation Services (DMR) appropriately reviews and authorizes allowable services for recipients of the Medicaid Home and Community Based Services for the Mentally Retarded and Developmentally Disabled Waiver. In addition, DMR does not adequately document the review and approval of services on the Individual Service Plan.

### TennCare Should Develop Adequate Controls to Prevent Capitation Payments on Behalf of Enrollees Who Become Incarcerated, and Amend Its Policies to Permit Full Recovery of Related Overpayments

TennCare does not have adequate controls in place to prevent capitation payments to managed care organizations and behavioral health organizations when enrollees become incarcerated. In addition, TennCare does not have a process to retroactively recover all capitation payments from the MCOs when enrollees are incarcerated.

### Deceased Enrollee Payment Recovery Procedures Need Improvement\*

Procedures for deceased enrollee payment recovery need improvement. Although improvements have been made, testwork revealed several weaknesses.

# Providers Not Paid in Accordance With Departmental Rules, and Processing of Medicare Cross-Over Claims Needs Improvement\*

TennCare has not complied with departmental rules, resulting in overpayments to providers caring for enrollees who are both TennCare and Medicare recipients. TennCare has not improved controls in processing the Medicare cross-over claims.

# Controls Over Access to the TennCare Management Information System Need Improvement\*

The Director of TennCare is responsible for, but did not ensure that, adequate TennCare Management Information System (TCMIS) access controls were in place throughout the audit period. As a result, deficiencies in controls were noted during system security testwork.

### Administration and Monitoring of TennCare Contracts Need Improvement

Services were performed and paid for without a contract, and one contract was outdated and inadequate. TennCare had no written contract monitoring policies and procedures to ensure compliance with contract provisions.

### **TennCare Committed Funds Without Approval**

Since July 1, 1999, the Department of Health, Bureau of TennCare, committed state and federal TennCare funds before it had a contract with the Department of Children's Services to provide services. As of December 10, 1999, an interdepartmental grant agreement had not been executed for the period July 1, 1999, through June 30, 2000.

#### **Subrecipients Not Monitored by TennCare\***

TennCare did not monitor the state's medical schools to ensure that requirements related to graduate medical education payments (approximately \$48 million in fiscal year 1999) were met, nor did TennCare advise the medical schools of the audit requirements of subrecipients.

# Millions in State Funds Remitted to Federal Government Because of Uncollected Provider Cost Settlements\*

Because TennCare still failed to collect Medicaid cost settlements from providers, state funds (\$10.2 million as of June 30, 1999) were used to pay the federal portion of the cost settlements. The federal grantor requires states to remit the federal share (approximately two-thirds) within 60 days of settlement, whether or not the state has collected the amounts due from the providers.

# TennCare's Accounts Receivable Policies and Procedures Not Adequate\*

As noted in the prior audit, TennCare has not established adequate overall policies and procedures for accounts receivable. Testwork also revealed discrepancies in the controls over enrollee premiums receivable.

# Policies and Procedures for TennCare's Accrued Liabilities Need Improvement\*

TennCare's inadequate policies and procedures for accrued liabilities resulted in an \$80 million financial adjustment to the state's general fund.

### **Controls Over Checks Should Be Strengthened**

Weaknesses in check procedures pertaining to poor segregation of duties, physical security, and the reconciliation of issued checks and paid checks were noted. For the year ended June 30, 1999, these checks totaled over \$3.6 billion.

### Noncompliance With the Special Terms and Conditions of the TennCare Waiver

Management did not comply with nine of 24 applicable special terms and conditions (STCs) of the TennCare Waiver, and controls over compliance with the STCs need improvement. Federal financial participation in the program is contingent upon compliance with the STCs.

# Internal Control Over Provider Eligibility and Enrollment Not Adequate to Ensure Compliance\*

TennCare's internal controls for provider eligibility and enrollment were not adequate to ensure compliance with Medicaid provider regulations.

### TennCare Did Not Comply With Federal Regulations and State Plan Provisions Concerning Unnecessary Utilization of Services and Suspected Fraud

TennCare did not comply with federal regulations and provisions of the state plan concerning unnecessary utilization of services and suspected fraud for Medicaid claims still paid under the fee-forservice arrangement.

### **Audit Requirements for Long-Term Care Facilities Not Followed**

The Bureau of TennCare did not ensure that audits of long-term care facilities were performed in accordance with the state plan and the departmental rules for Medicaid.

### ADP Risk Analysis and System Security Review Program Not Established\*

TennCare still does not have a coordinated program for automated data processing (ADP) risk analysis and system security review of the TennCare Management Information System, as required by the federal grantor.

### TennCare Incorrectly Approved a Pre-Admission Evaluation

TennCare inappropriately approved a pre-admission evaluation and allowed an individual to receive services without a physician's order.

#### Revision of TennCare's Rules Needed\*

Several departmental rules governing TennCare were inconsistent with TennCare's practices.

# No Procedures to Detect Dual Participation in the WIC and CSFP Programs

The department has no procedures to ensure that dual participation between the Special Supplemental Food Program for Women, Infants, and Children and the Commodity Supplemental Food Program will be detected.

### **Accounting for SAPT Grant Expenditures Is Not Adequate**

The department has not established specific cost centers in the State of Tennessee Accounting and Reporting System (STARS) for classification of expenditures for HIV services and treatment services for pregnant women and women with dependent children; therefore, the required expenditure levels cannot be traced to STARS.

### Subrecipients' Audit Reports Are Not Adequately Monitored\*

As noted in the seven prior audits, the subrecipients' audit reports were not received timely; did not contain the required schedules; and audit exceptions, including questioned costs, noted in the reports were not followed up or resolved timely.

### **Incorrect Grant-Funding Information in the State's Property Records**

The department did not record correct grant information for equipment items that were federally funded.

#### **Inadequate Contract Controls\***

The department failed to approve contracts before the beginning of the contract period.

### Tennessee Higher Education Commission

For the Years Ended June 30, 1998, and June 30, 1997

#### **Security Access Controls Need Improvement**

The commission did not promptly cancel terminated employees' access to the state's computer information systems or the state's mainframe computer. In addition, the commission could not always provide security maintenance forms for information system users.

### No Written Personnel Policies and Procedures

The commission has not adopted written personnel policies and procedures, and management does not evaluate its employees regularly through performance evaluations.

# **Tennessee Human Rights Commission**

For the Year Ended June 30, 1998

# The Commission's Revenue Procedures and Controls Were Inadequate

One employee performed all cash-receipting functions.

### **Controls Over Equipment Were Inadequate**

Twenty-nine percent of the commission's equipment items tested were not tagged, were not in the location indicated on the property listing, and/or were described incorrectly on property records.

### The Commission Failed to Comply with the Financial Integrity Act\*

The commission did not submit on time the 1997 report of its review of internal accounting and administrative controls and did not maintain adequate supporting documentation for the review.

### The Commission Did Not Record Its Federal Funding in Accordance with State Policy, Nor Did It Request an Exception to This Policy

The commission did not utilize the State of Tennessee Accounting and Reporting System (STARS) grant accounting system to track Federal funds, as required by Policy 20.

# Alleged Employee Fraud Was Not Reported to the Comptroller of the Treasury

The commission did not notify the Comptroller's office about possible employee fraud and the ultimate resolution of management's investigation.

### **Conflict of Interest Policies and Compliance Need Improvement**

There is no formal, written conflict of interest policy for commissioners and the current policy adopted for commission staff does not require disclosure of all potential conflicts.

### **Department of Human Services**

For the Year Ended June 30, 1999

### **Noncompliance With Child Support Enforcement Procedures\***

Not all resources were used to locate absent parents. Furthermore, certain cases examined had no evidence that a review was made within a 36-month interval, that attempts were made to enforce child support obligations, and that orders for medical support were enforced. Several cases were not assigned the proper case type classification in the computer system.

### Noncompliance With Federal Regulations Concerning the Child Care and Development Block Grant Funds

The department did not comply with spending requirements for the Child Care and Development Block Grant.

### **Noncompliance With State Licensing Requirements**

Announced and unannounced inspections of licensed child care providers were not always properly documented or always performed.

### **Inadequate Security Over Computer Systems\***

The department does not have adequate application controls over user access to the Tennessee Child Support Enforcement System (TCSES), the Automated Client Certification and Eligibility Network (ACCENT), and the Resource Access Control Facility (RACF). Separation of duties was not maintained; terminated employees' access privileges were not revoked; security authorization forms were missing or not properly completed; the security table contained inaccurate information regarding users; and user IDs were not properly accounted for.

# Noncompliance With the Department of Finance and Administration Policy 20

The department did not comply with the Department of Finance and Administration's Policy Statement 20, "Recording of Federal Grant Expenditures and Revenues."

### **Department of Labor**

For the Year Ended June 30, 1999

### **Controls Over Equipment Need Improvement**

The Department of Labor needs to strengthen controls over equipment. There appears to be a lack of communication relating to changes of equipment status such as location. Failure to update the property records weakens accountability for equipment and may result in loss of equipment.

# The Department of Labor Does Not Properly Authorize Use of the State's Mainframe Computer System

The Department of Labor does not require its security administrator to obtain a signed form from its employees authorizing them to access the state's mainframe computer system. The department's Information Technology management should develop a standardized form or letter to identify new users, describe the system components they may access, and specify the operations they may perform.

### **Local Government Group Insurance Fund**

For the Year Ended June 30, 1999

# The Tennessee Insurance System Has Significant Problems Which Caused TIS and STARS Not to Reconcile\*

Daily activity recorded in the Tennessee Insurance System (TIS) does not agree with the corresponding State of Tennessee Accounting and Reporting System (STARS) accounting transactions, nor can it be reconciled.

### Department of Mental Health and Mental Retardation

For the Years Ended June 30, 1998, and June 30, 1997

### The Department of Health and the Department of Mental Health and Mental Retardation Have Effectively Merged in the Absence of Legislative Authority

In the absence of legislative authority, the Department of Health and the Department of Mental Health and Mental Retardation have effectively merged departmental functions.

### Payments to Treatment Facilities for Transferred Conservatorships Were Made Without Proper Support

Payments made to subsequent treatment facilities on behalf of former residents of Lakeshore Mental Health Institute are not supported by invoices.

### Policies Governing Residents' Cash Were Not Followed at Western Mental Health Institute

Staff at Western Mental Health Institute did not follow restricted fund policy governing residents' cash.

### **Signature Authorization Procedures Are Not Adequate**

The department has not accurately completed signature authorization forms. The department is required to submit a signature authorization form covering each of its allotment codes. The form documents the signatures of the employees authorized to sign for the department head and budget/fiscal officer.

### **Controls Over Performance Evaluations Need Strengthening**

As noted in seven previous audits, the department has not complied with personnel policies requiring employee performance evaluations.\*

# Military Department of Tennessee

For the Years Ended June 30, 1998, and June 30, 1997

### **Inadequate Segregation of Duties\***

Persons who were no longer working at the department still had access to the State of Tennessee Accounting and Reporting System. Duties involving access to the Tennessee On-Line Purchasing System and the Property of the State of Tennessee System were not adequately segregated.

### **Noncompliance With the Financial Integrity Act\***

For the first year of the audit period, the department did not submit its annual internal control evaluation to the Commissioner of Finance and Administration and the Comptroller of the Treasury.

### Weak Controls Over the Station Commanders' Upkeep and Maintenance Funds\*

The department's revision of the regulations governing these funds relaxed some of the requirements for managing the funds and had the unintended effect of weakening management controls even further. Also, visits to selected armories and reviews of selected quarterly reports disclosed inadequate segregation of duties and noncompliance with applicable regulations.

#### **Active State Duty Payroll Documentation Not Maintained\***

The files used to calculate the active state duty payroll are not always complete.

### **Approval Process Circumvented for Obtaining Staffing Services**

The department used grant agreements with Tennessee Opportunity Programs, Inc., to obtain staffing services, instead of using the statewide contract or entering into personal services contracts.

#### **Equipment Records Not Properly Maintained**

Several pieces of equipment could not be found. Others were found at a location different from the one shown on the department's records. Also, state tags were not on all equipment.

### The Department Did Not Fully Utilize the STARS Grant Module\*

The department has not fully implemented the procedures established by Department of Finance and Administration Policy 20, "Recording of Federal Grant Expenditures and Revenues."

### **Tennessee Board of Paroles**

For the Year Ended June 30, 1998

# The Board of Paroles Needs to Strengthen Controls Over Equipment\*

The Tennessee Board of Paroles had numerous discrepancies relating to the proper recording of required equipment information on the Property of the State of Tennessee (POST) system.

### The Board Did Not Submit Its Annual Report in a Timely Manner\*

The Tennessee Board of Paroles had not submitted the annual report for the fiscal year ended June 30, 1998, to the Governor as of May 25, 1999, more than seven months after the mandated deadline.

### **Department of Personnel**

For the Years Ended June 30, 1998, and June 30, 1997

### **Failure to Obtain Fully Executed Contracts**

Fully executed contracts were not obtained before contract services were provided. If contracts are not fully executed before services are provided, the state could be obligated to pay for unauthorized services.

### **Department of Revenue**

For the Year Ended June 30, 1998

# OBSERVATIONS AND COMMENTS Revenue Integrated Tax System (RITS)

This is the second audit conducted since the Department of Revenue began implementing the Revenue Integrated Tax System (RITS). While the department has made progress with the system, there are still problems. Due to the major impact RITS has on the department's operations, it is appropriate to provide an overview of the progression of the system to this point.

In 1991, the department began planning for a fully integrated tax system to encompass 32 taxes. When completed, the system will process over two million transactions per year and account for and distribute over \$7 billion per year. The first tax was implemented in April 1995 and the last tax was implemented in March 1999. Also, the Office for Information Resources took over maintenance of RITS from the third-party contractor on March 1, 1999.

# The Department's Revenue Integrated Tax System Has Numerous System Problems\*

As noted above, the Department of Revenue has been implementing the RITS system for the last four years. The system has had numerous problems during its implementation, some of which have been very significant.

### Balancing Problems Are Still Occurring in RITS\*

Numerous balancing problems are still occurring in RITS accounting reports. The number of out-of-balances have gone up from the prior year and the underlying causes of the out-of-balances have not been corrected.

# Problems With RITS Delayed Disbursements to Other States for International Registration Plan Taxes

Fees collected by the state that were owed to other states had not been disbursed to those respective states in a timely manner. As of June 30, 1998, the unpaid amount due to other states totaled over \$42.1 million and was not paid for as long as six months after the fees were collected.

### The Department's Disaster Recovery Plan Needs Improvement\*

As noted in the prior audit, the department's disaster recovery plan is not current and does not address the continuity of the major operational function of the department.

# Management Information Systems (MIS) Policies and Procedures Manuals Need to Be Updated\*

As noted in the prior audit, the department's MIS policies and procedures are still not up-to-date.

### RITS Security Needs to Be Improved\*

As noted in the prior audit report, the department's controls over employees' access to RITS need improvement.

### Improved Controls Over Program Changes in MIS Are Needed\*

As stated in the prior audit, computer programs called SPUFIs (Sequential Processing User File Input) are being used by Management Information Systems (MIS) staff to correct taxpayer accounts directly in the system rather than through properly authorized and documented transactions.

### **Procedures Regarding Changes to Taxpayer Account Balances Are Not Being Followed**

As of June 4, 1999, one Employee Transaction Activity report had been generated and reviewed. This is not in compliance with the department's Guidelines for Account Balance Changes on RITS.

# Refunds Are Not Always Processed Correctly by RITS or Properly Reflected in Taxpayer Accounts\*

As noted in the prior year's audit, there were significant problems with the way RITS processes refunds and posts them to the taxpayer accounts, which could result in duplicate refunds being made to the taxpayers.

### The Department Does Not Properly Track and Monitor Refund Claims in Order to Minimize Interest Paid

The Refund and Penalty-Waiver Unit is not closely monitoring refunds to ensure that they are sent through the signature process to ensure payment is made within 45 days from the date of the claim as required by state law. Because of this, the state paid out \$371,610.20 in interest on late refunds.

### Controls in the Tax Enforcement Division Need Improvement\*

The department is not maintaining adequate control over bankruptcy claims, timely follow-up on delinquent cases, and the officer diaries in the regional offices.

### **Department of Safety**

For the Years Ended June 30, 1998, and June 30, 1997

# The Department Does Not Post Bad Checks to the Driver's History File Timely and Does Not Have a Policy to Address Customers Writing Numerous Bad Checks to the Department

The department did not post bad checks to the driver's history file in a timely manner.

### Accidents and Violations Are Not Posted Timely to Drivers' Records\*

Posting of accidents and violations takes several weeks, so the department may not promptly identify unsafe drivers.

# Controls Over the Reconciliation of Motor Vehicle Plates and Decals With Revenue Are Inadequate\*

The department does not reconcile inventory reports of distributions of vehicle plates and decals with revenue from the county clerk.

### County Clerk Reports Were Not Submitted Timely\*

County clerks did not submit reports of applications and original registrations and reports at renewal registrations in accordance with applicable laws.

#### **Controls Over Payroll Time Sheet Preparation Are Inadequate\***

Because time sheets are not adequately reviewed, the department overpaid employees \$17,694.24.

# The Department Failed to Approve Contracts Before the Beginning of the Contract Period

Fully executed contracts were not obtained before contract services were provided. If contracts are not fully executed before services are provided, the state could be obligated to pay for unauthorized services.

#### SPECIAL INVESTIGATION

# Internal Controls Over the Use of the Motor Vehicle Title and Registration Division's Computer System Are Inadequate

The department's Motor Vehicle Title and Registration Division does not have adequate system controls to prevent unauthorized access. A review determined that changes were made to a criminal investigator's vehicle title records under the Sequatchie County Clerk's computer identification number (also called a Resource Access Control Facility [RACF] ID number) and password.

### Tennessee State School Bond Authority

For the Year Ended June 30, 1998

### Inadequate Accounting Procedures and Recordkeeping\*

The authority does not have practical guidelines and procedures to ensure transactions are properly recorded. The many problems with the authority's financial statements contributed to the delay in completing the *Tennessee Comprehensive Annual Financial Report*.

### **Cash Reconciliations Not Properly Performed**

The authority did not properly reconcile the cash accounts. As a result, the cash accounts contained several significant discrepancies. Also, the Statement of Cash Flows did not balance by \$205,603.

### Tennessee State Veterans' Homes Board

For the Year Ended June 30, 1998

### **Accounts Receivable Practices Are Not Adequate\***

The Tennessee State Veterans' Homes Board's accounts receivable balance does not portray a complete picture of the current receivable activity or the true amount the board must attempt to collect. The board has not promptly refunded Medicaid overpayments. The management company has not properly reduced the rate adjustments for certain Medicaid-eligible veterans. In addition, the management company has not appropriately written off uncollectible receivable accounts.

### **Controls Over Fixed Assets Are Not Adequate\***

Annual inventories have not been properly performed, equipment records are inadequate to integrate annual inventory results into the general ledger, and a separate and distinct property officer has not been designated.

### **Cash-Receipting Controls Need Improvement**

Cash receipting duties are not segregated to provide good internal control. Essentially all receipting duties for the Murfreesboro depository account, the Murfreesboro patient trust account, and the Humboldt patient trust account reside with one individual per account. Receipt books used are not always prenumbered.

### **Teacher Group Insurance Fund**

For the Year Ended June 30, 1999

# The Tennessee Insurance System Has Significant Problems Which Caused TIS and STARS Not to Reconcile\*

Daily activity recorded in the Tennessee Insurance System (TIS) does not agree with the corresponding State of Tennessee Accounting and Reporting System (STARS) accounting transactions, nor can it be reconciled.

# Department of Transportation

For the Years Ended June 30, 1999, and June 30, 1998

### Management Failed to Enforce Surplus Equipment Disposal Procedures and Allowed Improper Use of State Property for Work on Non-State Vehicles

Employees arranged for a private citizen to remove an automobile lift from the garage and mechanics received cash payments to repair personal vehicles at the garage.

### Weaknesses in the Department's Internal Controls Allowed Misappropriation of State Property to Go Undetected

Automotive parts and other items totaling \$10,533.32 were ordered for personal use and charged to the garage's accounts with various vendors.

# **Improvements Needed in Documentation of Decisions for Supplemental Agreements**

Net supplemental agreements totaling \$32,101,676 were approved by the department for road construction contracts closed during fiscal years 1997, 1998, and 1999. Because of the lack of detailed documentation supporting some decisions made by department officials on various supplemental agreements, it could not be determined whether the bases for all the supplemental agreements reviewed were appropriate.

### Railroad Crossing Safety Program Needs Improvement

Decisions for upgrading railroad crossings were made that were unjustified and inappropriate.

# **Improper and Inept Manipulation of Contracts to Obtain Computer-Programming Services**

Management officials with the department's Right-of-Way Division used supplemental agreements to an appraisal contract to obtain computer-programming services totaling \$34,908.60.

# **Improper and Inept Manipulation of Contracts to Obtain Computer Equipment**

Right-of-way consultant contracts contained language requiring consultants to provide a computer system to the division, circumventing established procurement procedures.

# Inspections of Bridges and Other Structures Are Not Always in Accordance With Departmental Procedures

The department has established policies and procedures for inspecting bridges and other structures. However, department personnel do not always adhere to these policies and procedures. The proper inspection was not always performed and inspections were not always performed timely.

### No Written Policies and Procedures for the Transportation Equity Fund

The department has not developed written policies and procedures for the Transportation Equity Fund to ensure funds are accounted for properly.

# **Surety Bond for Overweight and Over-dimensional Permits Not Required**

The department does not ensure that potential Overweight and Overdimensional Permit holders provide a surety bond or furnish satisfactory proof of solvency as required by *Tennessee Code Annotated*, Section 55-7-205(g).

### **DOT STARS Disaster Recovery Documentation Is Inadequate**

The disaster recovery plan and the documented results of mock disaster testing for DOT STARS are insufficient.

### **Computer Administrative and Security Controls Need Improvement**

The Department of Transportation needs to improve its controls over the authorization and approval of computer user access, and the elimination of user access for terminating employees.

# **Department of Veterans' Affairs**

For the Years Ended June 30, 1999, and June 30, 1998

### Cash Receipts Were Not Deposited in a Timely Manner

The West Tennessee State Veterans' Cemetery is not making deposits of revenue within the time periods prescribed by state law and state policies.

### Tennessee Wildlife Resources Agency

For the Years Ended June 30, 1998, and June 30, 1997

### **Insufficient Controls Over Cash Receipts\***

Cash-receipting functions are not centralized; checks are not always restrictively endorsed immediately upon receipt; written receipts or a detailed control list of money received is not prepared upon receipt of money; and cash-receipting duties are not adequately segregated. Because of these weaknesses, cash could be lost or misplaced, and the loss could remain undetected.

# Noncompliance With Procedures Governing Third-Party License Sales Agent\*

Third-party license sales agents were not always assessed penalties in accordance with the law.

### **Improvement Needed in Controls Over Equipment**

Information on the Property of the State of Tennessee was not always correct and state tags were not always permanently affixed to the equipment.

### Universities, Colleges, Technical Institutes, and Technology Centers

### Columbia State Community College

For the Years Ended June 30, 1998, and June 30, 1997

### **Equipment Policies and Procedures Are Not Adequate**

The college's policies and procedures do not require an annual inventory of equipment, and no such inventory was taken during the audit period.

### Middle Tennessee State University

For the Year Ended June 30, 1999

### Students' Financial Aid Eligibility Not Adequately Monitored

In the eligibility testwork that was performed, six instances were noted in which the Financial Aid office awarded aid even though the applicable requirements had not been met. Costs of \$10,831 are questioned. The failure to follow established policies resulted in awarding of aid to ineligible students. Since available federal funds are limited, some eligible students may not have been served.

#### SPECIAL INVESTIGATION

### Former Financial Aid Director Violated University Policies and Procedures and Federal Financial Aid Regulations in His Awards of Financial Aid

The former Financial Aid Director improperly approved disbursement of seven federal loans totaling \$71,250 to himself and four of his relatives. He also instructed business office and Financial Aid office staff to personally obtain institutional financial aid checks payable to his relatives and provide the checks directly to him in violation of established university procedures. In addition, he instructed a Financial Aid office clerk to improperly change information on six federal financial aid applications to make the students appear eligible, and they received federal grant funds totaling \$13,584. He also added information to two of his relatives' financial aid files after being instructed by university management not to make any changes. Finally, he awarded a university employee institutional financial aid totaling \$33,797.50 to supplement the employee's salary.

# Roane State Community College

For the Years Ended June 30, 1999, and June 30, 1998

# Refunds Are Not Calculated for Students Who Unofficially Withdraw

The college does not perform refund calculations for students who unofficially withdraw from school because the Student Financial Aid Office does not provide a list of students who stopped attending classes to the Business Office so they can be evaluated. The failure to perform calculations for students who unofficially withdraw could result in an overaward to some recipients.

# **Shelby State Community College**

For the Years Ended June 30, 1999, and June 30, 1998

### **Financial Reports Were Not Accurately Prepared**

The college's unaudited financial reports for the years ended June 30, 1999, and June 30, 1998, which were submitted to the Tennessee Board of Regents (TBR), were not prepared in accordance with the detailed instructions provided by TBR. The reports contained information that did not agree with the general ledger or supporting documentation, amounts on supporting schedules that did not always agree with amounts reported in the financial statements, and inaccurate note disclosures. College personnel did not follow the TBR instructions, perform comparisons between related schedules, or maintain adequate documentation for the amounts in the report. Several of the noted errors could have been detected and corrected if the TBR instructions had been properly followed and if comparisons had been made between related supporting schedules and the financial statements.

#### **Bank Reconciliations Were Not Properly Performed**

The bank reconciliations were not always properly reconciled with the general ledger. Numerous errors were noted on the operating, payroll, and Tennessee Insurance System (TIS) bank account reconciliations. Considering the errors noted, management cannot be assured that the bank accounts reconcile. If adequate documentation had been maintained, the reconciling items could have been explained.

### **Better Reporting of Equipment Needed\***

Equipment reconciliations were not properly performed and reflected in the accounting records. Equipment additions were not properly reconciled to the final expenditures per the subsidiary ledger, and additions and deductions were not properly reflected on the general ledger. Not properly recording equipment transactions could result in a material misstatement of the financial statements. If the reconciliation had been properly performed, these errors would have been discovered and the necessary adjustments could have been made to the general ledger.

# Property Losses Were Not Reported to the Comptroller of the Treasury\*

The college has not complied with Section 8-19-501, *Tennessee Code Annotated*, which requires the reporting of losses to the Comptroller.

# **State Technical Institute at Memphis**

For the Years Ended June 30, 1998, and June 30, 1997

# Controls Over Restricted Revenues and Accounts Receivable Need Improvement

Some receivables were established without adequate support, and some amounts had not been billed. Restricted revenues were overstated for one program, and a portion was misclassified for another program. For one program, it was difficult to determine the accuracy of accounts receivable because the invoices did not agree with the ledger.

### **Tennessee State University**

For the Year Ended June 30, 1999

# **University Personnel Did Not Properly Update Equipment Inventory Records**

The university's moveable property section did not have an adequate system of follow-up to ensure that equipment changes indicated by individual departments were properly reflected in the fiscal year-end equipment balances. In addition, the location of federal equipment items was not always reflected properly in the university's property records. Failure to update the equipment records resulted in a \$228,236.40 net overstatement of equipment, and the transfer of 49 equipment items between departments was not reflected.

### Students Awarded Financial Aid in Excess of Their Eligibility

Eighteen students were awarded financial aid packages that were greater than the total aid for which they were eligible. The overawards ranged from \$27 to \$2,820 per student and totaled \$14,244.

#### SPECIAL INVESTIGATIONS

### Internal Control Weaknesses Permitted a \$19,474 Misappropriation From Debitek Vending Machines and Prevented Prompt Detection of the Shortage

A review of cash shortages related to the Debitek Cash to Card vending machines identified the following internal control weaknesses: failure to secure the machine keys; failure to rekey the machines; failure to follow the university's written policy; failure to follow the Bursar's established procedures; inadequate procedures; and failure to react promptly.

### Internal Control Weaknesses in the Bursar's Office Prevented Prompt Detection of a \$2,000 Misappropriation From University Bank Deposits

A review of cash shortages in the Bursar's office identified the following internal control weaknesses: bank deposits not reconciled in a timely manner; cashier supervisor not properly supervised by the Bursar; bank deposits not reconciled, independently of the cashier supervisor, on a daily basis; failure of management to properly monitor, restrict, and document issuance of vault combination and keys; and an inadequate security alarm system.

# **Inadequate Controls Over Outside Security Guards Resulted in Overpayments**

A review of security services provided by Metropolitan Police officers during the period August 1997 through August 1998 revealed that the supervising officer was on duty with the police department during 16.4 hours he reported he was working at the university. The overpayment was \$329.68. The review also revealed that the in-court hours reported for three other metro police officers overlapped with the hours reported to the university, resulting in overpayments totaling \$82.54.

# **Tennessee Technology Center at Athens**

For the Year Ended June 30, 1998

### Failure to Monitor and Update Its Equipment Listing

The center did not remove surplused items from its year-end equipment listing.

### **Tennessee Technology Center at Hohenwald**

For the Years Ended June 30, 1998, and June 30, 1997

### The Director of the Child Care Facility Misrepresented Child Care Rates in Official Documents, Resulting in Improper Payments by the Department of Human Services for Child Care Assistance

The child care facility, in violation of contract terms, charged the Department of Human Services rates higher than those charged to the general public for equivalent child care. In addition, there were inadequate attendance records at the facility. Total costs questioned were \$47,591.

### Tennessee Technology Center at Murfreesboro

For the Years Ended June 30, 1998, and June 30, 1997

# **Special Industry Training Was Provided Without Signed Contracts**

Tennessee Technology Center at Murfreesboro provided special industry training to employees of various companies without signed contracts.

# The University of Tennessee

For the Year Ended June 30, 1999

# **Surplus or Missing Equipment Should be Removed from the Equipment System**

The university does not remove surplus and missing equipment from its equipment inventory system in a timely manner. This reduces accountability for equipment and could result in inaccurate financial statements.

### **Custodial Services Should Be Obtained Through Bids**

The University of Tennessee at Memphis obtained temporary custodial services under an existing blanket purchase order for clerical services. As a result, the custodial services, totaling \$51,424.00, were not properly obtained through bids.

# The University Does Not Recalculate Certain Pell Awards and Does Not Monitor Withdrawals\*

The University of Tennessee at Knoxville and the University of Tennessee at Memphis do not recalculate federal Pell Grant awards to students who fail to begin attending some of their classes. In addition, the University of Tennessee at Knoxville does not monitor the class attendance of financial aid recipients for evidence of unofficial withdrawal.

# Federal Program Descriptions Should Be Communicated to Subrecipients

The university's contracts with subrecipients of federal funds do not communicate the Catalog of Federal Domestic Assistance (CFDA) program number or program title to the subrecipients.

### **Community Services Agencies**

### Chattanooga - Hamilton County Community Services Agency

For the Year Ended June 30, 1998

### The Agency Should Obtain Collateral for Uninsured Deposits

The Chattanooga - Hamilton County Community Services Agency did not obtain collateral to secure its bank deposits.

### Northeast Community Services Agency

For the Year Ended June 30, 1998

### **Expenses Incurred Before Contracts Properly Approved\***

The agency entered into and incurred expenses on three fiscal-year-1999 contracts before the 1999 Plan of Operation and the individual contracts were approved.

### Southeast Community Services Agency

For the Year Ended June 30, 1998

### **Revenue Monitoring Procedures Need to Be Improved**

The agency did not collect approximately \$6,470.25 in monthly capitation payments due to inadequate monitoring procedures.



Ron Paolini, CPA, CGFM Assistant Director

The Medicaid/TennCare section, under an agreement with the Department of Finance and Administration, provides audit, rate setting, and consulting services for the Medicaid nursing facility program and the TennCare Program. Most of the state's Medicaid Program has been replaced by the TennCare Program, a managed care waiver approved by the federal government. State mental health services are included in the waiver under the TennCare Partners Program. The nursing facility program, however, remains in the traditional Medicaid setting.

A staff of professional auditors perform the following functions:

- Compute settlements for state-operated intermediate care mental retardation facilities (for service periods before January 1, 1994).
- Conduct field reviews of intermediate care facilities for the mentally retarded and Level I and Level II nursing facilities.
- Perform desk reviews of cost reports and compute per diem reimbursable rates for nursing facilities participating in the Tennessee Medicaid Program.
- Conduct financial-related reviews of the managed care organizations (MCOs) and the behavioral health organizations (BHOs) that have contracted with the state to provide services to recipients under the TennCare and TennCare Partners Programs.
- Assist the Department of Health, as requested, with quality assurance reviews of the TennCare MCOs.
- Compute certified public expenditures in public hospitals. Defined as the difference between a hospital's TennCare costs and

TennCare payments, "certified public expenditures" are needed to comply with certain provisions of the TennCare federal waiver approval.

In addition to its Medicaid and TennCare responsibilities, the section conducts audits of the state health insurance plans.

#### **Provider Reimbursement**

### **Level II Nursing Homes**

Cost report settlements will be computed for Level II nursing facilities for services provided through September 30, 1996. Beginning with services on and after October 1, 1996, Level II nursing homes will be paid on a prospective basis similar to Level I. Level II settlements were completed in 2000.

#### **State Intermediate Care/Mental Health Providers**

Beginning with the year ended June 30, 1996, the state moved its mental retardation facilities to retrospective cost settlement so that the state could more quickly react to increasing costs in the program. The TennCare section will be responsible for computing the cost settlements for these providers.

#### Reviews

### **ICF/MR** and Nursing Facilities

The Medicaid/TennCare section reviews nursing facilities and intermediate care facilities for the mentally retarded (ICF/MR). The reviews cover patient trust funds and those aspects of the facility's operations critical to Medicaid reimbursement. During the year ended June 30, 2000, the section released four reviews. Several informal reviews of nursing facilities were also completed during the year. These reviews typically are limited to problem areas in a facility's operations or are requested by the provider or the Medicaid Bureau.

The most frequent findings resulting in repayments to the Medicaid nursing home program were claims for nonallowable expenses reported on the cost report. The most frequent finding resulting in refunds to recipients was failure to refund former patients' credit balances.

#### **Managed Care Organizations (MCOs)**

The Medicaid/TennCare section performs compliance reviews of TennCare managed care organizations. These reviews are intended to aid the Bureau of TennCare in its review to determine whether the terms of the MCO contracts are met. The terms of these contracts include proper claims payment, proper accounting for payments from the TennCare Bureau, proper enrollment counts, maintenance of financial reserves, and sufficient record keeping.

During the year ended June 30, 2000, the section released three MCO reviews. The most frequent finding concerned weaknesses in the claims-processing system. Other major findings involved insolvency, deficiencies in financial reporting, and deficiencies in claims processing.

Since entering into a court-ordered rehabilitation plan on March 31, 1999, Xantus Healthplan of Tennessee, Inc., is operating on a non-risk basis. Quarterly cost reconciliations are prepared by the Medicaid/ TennCare section as required by the Health Care Financing Administration.

### **Behavioral Health Organizations (BHOs)**

The Medicaid/TennCare section performs compliance reviews of the two TennCare Partners behavioral health organizations. These reviews are intended to aid the Department of Mental Health and Mental Retardation in its review to determine whether the BHOs have adhered to the terms of their contracts. The terms of these contracts include proper claims payment, proper accounting for payments from the TennCare Bureau, proper enrollment counts, maintenance of financial reserves, and sufficient record keeping. The TennCare Partners Program began July 1, 1996. An audit of the TennCare BHO covering the period July 1, 1998, through June 30, 2000, is in progress.

#### **State Health Insurance Plans**

The audit of the State Employee Group Insurance Program, the Local Education Group Insurance Program, and the Local Government Group Insurance Program for the two-year plan period ended December 31, 1997, was completed during the year and released in January 2000. The plans are administered under contract with Blue Cross and Blue Shield of Tennessee. The insurance program contained an additional performance standard on the State Plan under which Blue Cross agreed to manage utilization through December 31, 1996. The standard involved holding cost increases for medical services to no more than a percentage increase based on the consumer price index. Blue Cross was found to have met the performance standard.

#### **Budget Monitoring**

The Medicaid/TennCare section captures the nursing home payments from the state system each month to monitor the expenditures of the program. This information is used by TennCare to assist them in budgeting for the program.



Barbara K. White, CPA, CGFM Assistant Director, TennCare-Special Projects

The state, legislature, or federal government often requests that the Division of State Audit work on special TennCare Projects. Two such projects are currently in progress:

• The state, under a consent decree with the court, has agreed to perform and comply with certain requirements with respect to TennCare enrollee grievances and appeals. The TennCare managed care contractors and their providers are also subject to consent decree, so it has widespread implications. The agreement, commonly referred to as the "Grier consent decree," became effective in 2000.

The Comptroller's Office is required under the Grier order to perform quarterly reviews of the state's compliance with its provisions. The first of such quarterly reviews has been completed and the second is nearing completion.

• Legislation passed last session requires the Comptroller to appoint a pharmacy committee to study certain TennCare pharmacy issues. The Division of State Audit has appointed the committee and will be overseeing its activity. The first meeting of the committee was held on December 9, 1999, while work has continued throughout 2000.



Deborah V. Loveless, CPA, MBA, CGFM Assistant Director

A performance audit is an independent examination of the extent agencies and departments of state government are faithfully carrying out their programs. The audit reports assist the General Assembly and agency management

- by assessing the extent to which state agencies have fulfilled their statutory mandate and the efficiency and effectiveness of management's organization and use of resources,
- by developing recommendations for management or legislative action that might improve the efficiency and effectiveness of the agency's operations, and
- by providing pertinent program and financial data about the agencies.

Most of the performance audit section's workload is performance auditing directed by the Tennessee Governmental Entity Review Law, commonly known as the Sunset Law (Section 4-29-101 et seq., *Tennessee Code Annotated*). This law requires that each agency, board, commission, or other entity be reviewed at least once every eight years by the legislative Joint Government Operations Committee to determine whether that entity should be continued, restructured, or terminated.

Audit staff focus their efforts on the audits of major entities. In the year ended June 30, 2000, the performance audit section released ten audit reports and two special reports and had ten projects in process at year-end. The Government Operations Committees held 18 public hearings on 75 entities in the year ended June 30, 2000. At these hearings, performance audit staff presented audit reports covering 38 entities. Another 38 entities submitted written responses to staff-prepared

questions based on their statutory authority and responsibility. In addition, the committee received updated information requested in prior-year public hearings on two entities.

### **Audit Process**

Performance audits are conducted in accordance with generally accepted government auditing standards. Audits progress through six phases: planning, detailed audit field work, report writing, comments from agency management, publication of the final report, and presentation of the final report at a legislative hearing. Performance auditing includes the following activities:

- Review of relevant state and federal laws, court cases, Attorney General's opinions, executive orders, rules, and regulations.
- Review of the agency's procedures, plans, and policies.
- Examination of the agency's records, files, and correspondence.
- Interviews with staff of the audited agency and related agencies.
- Observation of the agency's operations and activities.
- Analysis of the agency's revenue and expenditure data.
- Analysis of the agency's program data, performance measures, and reported results.
- Review of comparative data from other states.
- Surveys of individuals, agencies, and organizations served or affected by the agency.
- Tests for compliance with significant legal and administrative requirements.
- Evaluation of the extent to which the agency achieved desired results at the lowest reasonable cost.
- Recommendations of possible alternatives for legislative or administrative action that may result in more efficient and effective accomplishment of the agency's legislative mandate.

### **Results of Audits**

The following are summaries of the results of the ten audit reports and one special report released during the year ended June 30, 2000.\*

### Commercial Vehicle Enforcement Division Department of Safety June 1999

### Commercial Vehicle Enforcement's Ability to Identify and Write Assessments for Overweight Trucks Has Been Limited by Inoperative Scales at Some Weigh Stations

Extended periods of downtime at some weigh stations mean lost revenue because staff could not weigh trucks and, consequently, could not write assessments (a tax paid to the state for vehicles with weights

<sup>\*</sup>Findings repeated from prior audits are marked with an asterisk.

or lengths greater than the registered amount). The amount of scale downtime (defined as time when the weigh station is not open or when the station is open but the scale itself is not weighing trucks) for 1997 and for 1998 appears high, particularly at weigh stations with older scales. In addition, the number of hours of downtime, the percentage of downtime versus total available hours, and the percentage of downtime caused by maintenance all increased from 1997 to 1998.

### A Majority of the Computers Purchased for Officers in the Field Have Not Been Used

The expected benefits from a \$400,000 purchase of computers have not been achieved largely because of a dispute with the vendor. In 1996, Commercial Vehicle Enforcement purchased 100 portable computers for officers to use when performing truck inspections in the field. These computers were expected to save time, improve efficiency, and increase accuracy of reporting because officers could enter truck inspection information directly into the computer, print the completed inspection form, and download the information onto diskette for entry into the federal database. Despite the apparent benefits, only 21 of the approximately 90 computers issued to enforcement personnel in the field (enough for each supervisor and each road patrol officer) are regularly used.

### Posting of Citation Dispositions to Drivers' Records Is Hindered Because Dispositions Are Not Received or Are Not Received in a Timely Manner From the Courts

Section 55-50-409, *Tennessee Code Annotated*, states that courts shall notify the Department of Safety of citation convictions for moving violations against holders of commercial drivers' licenses within ten days of the conviction. However, our review of this process indicates that in many cases, conviction information never reaches Commercial Vehicle Enforcement for processing and that the information the division does receive is not timely. As a result, thousands of court convictions are not posted (or are not posted in a timely manner) to drivers' histories, points are not assessed against drivers' licenses, and (in some instances) licenses are not revoked when appropriate.

### Five Officers Failed to Perform the Minimum Number of Inspections Needed to Maintain Their Certification by the Commercial Vehicle Safety Alliance

State law requires that Commercial Vehicle Enforcement officers conduct their inspections in accordance with the inspection procedures outlined by the Commercial Vehicle Safety Alliance (CVSA). According to the CVSA's bylaws, a certified inspector has completed a CVSA-approved course, passed a written examination, and conducted 30 Level 1 inspections under the guidance of a certified inspector. To

maintain certification, an inspector must conduct at least 32 Level 1 or Level 5 inspections per year. Our review of calendar year 1997 inspection activity for 146 officers indicated, however, that five CVSA-

certified inspectors (two lieutenants and three sergeants) conducted less than the 32 inspections required to maintain certification. The number of Level 1 inspections conducted by the five inspectors ranged from 8 to 26; none of the inspectors had performed any Level 5 inspections.

# **Tennessee Commission on Aging**

June 1999

# The Commission Did Not Follow Up With Area Agencies on Aging to Ensure They Had Implemented Assessment Recommendations

The commission does not track its recommendations to see that they are implemented and that problems are corrected. It does not always require agencies to provide corrective action plans or to report on their progress in correcting problems. The most recent federal audit of the commission by the Administration on Aging (1994) recommended that the commission develop a procedure to ensure that corrective action is taken on audit findings and recommendations for all area agencies on aging.

# The Commission Did Not Conduct Any Research or Special Studies Prior to Fiscal Year 1999

One of the commission's primary purposes, according to *Tennessee Code Annotated*, Section 71-2-102, is to conduct studies and research into the needs and problems of the aging. However, except for a recent report on long-term care released in November 1998, the commission has not produced any type of research report. The lack of research deprives the General Assembly and the Governor's Office of reliable information to use in developing laws to help the elderly in Tennessee.

### Commission Members and Volunteer Ombudsman Representatives Did Not Always Complete Conflict-of-Interest Forms

State law does not require commission members to fill out conflict-of-interest disclosure forms; however, initial and periodic disclosure of personal, professional, and financial interests could alert the commission to potential conflicts that need to be discussed and resolved. The commission's policies require volunteer ombudsman representatives (VORs) to fill out a conflict-of-interest disclosure form and to have the form placed in their files at the district ombudsman's office. However, the review of Area Agency on Aging assessment reports indicated that some of the VORs did not have a signed conflict of interest disclosure form on file.

Tennessee Emergency Management Agency and Related Commission and Compacts June 1999

Regional Office Monitoring of Local Contracts Should Be Improved Regional office monitoring of counties' compliance with emergency management contracts is inconsistent and inadequate. Counties' responsibilities include developing an emergency operations plan, coordinating local response to emergencies, and completing a self-assessment to identify strengths and weaknesses. The degree to which the regional offices check contract compliance varies.

# **Improvements Needed in the Emergency Service Coordinator Program**

Problems with the Emergency Service Coordinator program could hinder the program's effectiveness. The lack of available, appropriately equipped transportation and an up-to-date roster of coordinators could significantly slow response time.

### Department of Environment and Conservation

# The Division of Radiological Health Needs to Implement Changes to Improve the X-ray Inspection Process

The Division of Radiological Health estimates that it did not complete 29 percent of its scheduled inspections for 1998 and has not implemented changes recommended in the prior audit to plan for more efficient and effective use of staff resources. When the division does not complete inspections in a timely manner, it cannot provide assurance to X-ray machine operators and consumers that X-ray machines are safe and effective.

### The Tennessee Underground Storage Tank Fund May Become Insolvent

The Tennessee Underground Storage Tank Fund has a larger amount of claims pending processing than fund balance available to pay the claims. The State of Tennessee *Comprehensive Annual Financial Report* has reported a declining balance for the fund, from \$10.7 million on June 30, 1996, to a zero fund balance on June 30, 1999.

# **Inspections of Underground Storage Tanks Are Not Completed in a Timely Manner**

The Division of Underground Storage Tanks has not met its goal of 1,500 inspections per year. In addition, the department has not completed its compliance verification surveys to determine how many operating underground storage tanks are not meeting December 1998 federal and state leak detection requirements.

### Standardization of Data and Method to Record Enforcement Activities and to Monitor Timeliness Is Lacking

The department does not have written policies and procedures for the regulatory divisions specifying the data they should use when recording enforcement activities and the method to be used to communicate the data to the enforcement coordinator. The department does not have a policy indicating the type and frequency of analyses that management should use to assess that data.

### Park Boundary Survey Efforts Can Be Improved

The Division of Real Property is responsible for identifying and marking boundary lines for parks, natural areas, and historical and archaeological sites owned by the state and for documenting encroachments of those boundaries. According to staff of the division, 32 out of 52 state parks have unmarked boundaries. Surveys could

identify possible encroachments. Encroachments occur when individuals or companies use state land as if it belonged to them.

### All Indirect Costs Are Not Allocated to State Parks and Food Costs Need Monitoring

Administrative costs of the Division of State Parks central office and costs for major maintenance are not included in the total costs of the parks.

### More Could Be Done to Address the Public Interest

The department does not have guidelines stipulating how to weigh economic benefit against environmental concerns. In addition, the related environmental boards do not require members to submit conflict-of-interest statements disclosing financial, personal, and professional interests that might conflict with board responsibilities. Also, three boards lack public members and a State Compliance Advisory Panel to assist small businesses with the federal Clean Air Act has not been established.

### Tennessee Higher Education Commission

March 2000

### Seventeen of the 22 Benchmarks of Challenge 2000 Will Not Be Met

The commission established the Tennessee Challenge 2000 goals and benchmarks in 1989. The goals, which have not been revised, may be unrealistic or poor performance indicators. In addition, there are no negative consequences for not reaching the benchmarks.

### The Fellowship Program Is Not Significantly Increasing the Number of African-American Professionals

The Tennessee Pre-Law and Pre-Health Fellowship Program is a summer enrichment program for African-American residents of Tennessee who wish to pursue a career in law, dentistry, medicine, pharmacy, or veterinary medicine. There is a low completion rate of participants, and program graduates overall have not been successful in professional school.

# The Commission Cannot Document Results of the Minority Teacher Education Program

Through the Minority Teacher Education Program, the commission awards grants to higher education institutions to support pilot projects to increase the number of African-American teachers in Tennessee, particularly in grades K-12. The number of teachers recruited through the program is unknown except in two of the 22 cases reviewed because there was no documentation of program results.

### Neither Commission Members nor Executive Staff Have Completed Conflict-of-Interest Disclosure Forms

Conflict-of-interest disclosure forms, required for both commission members and executive staff, have not been completed for at least fiscal years 1998 and 1999.

### Two Sections of Statute May Be Obsolete

There are two areas of statutory responsibility (one relating to solid waste issues and one relating to agricultural and home economics programs) where the commission is not in compliance because the statutes may not be relevant.

### **Human Rights Commission**June 1999

# The Commission Has Not Resolved Employment Complaints in a Timely Manner\*

The commission's failure to resolve employment discrimination charges in a timely manner prevents complainants from obtaining remedies for their situations and encourages continued discriminatory practices. As of September 30, 1998, the commission had a backlog of 1,090 cases—747 (68%) of which were 270 days or older, including six 1991 cases and one 1990 case.

### **Management of Staff Needs Improvement\***

The commission has had problems managing its staff in the past and has taken some actions to improve productivity. The executive director, in office since November 1997, has suspended some employees for unsatisfactory job performance, unprofessional behavior, and unauthorized leave and job abandonment. He has also addressed continuing conflicts between employees. However, staff are still not properly accounting for their time and are not receiving feedback on job performance.

### The Commission Does Not Have a Formal, Written Conflict-of-Interest Policy for Commissioners and Its Policy for Staff Is Not Comprehensive\*

There is no formal, written conflict-of-interest policy for commission members and the policy adopted for commission staff only addresses potential financial interest conflicts. Current or prior affiliation with or interest in the person or companies involved in a complaint could create a conflict of interest for commission members, for staff investigating discrimination charges, and for administrative staff. Identifying potential conflicts regularly will help avoid questions concerning impartiality and independence after a charge has been received, after a decision is rendered, or as the commission conducts its daily business.

# The General Assembly Needs to Review the Commission's Responsibilities for the Title VI Program

The commission has undertaken a number of tasks related to Title VI, including receiving complaints, reviewing implementation plans, and assisting state agencies in meeting their Title VI responsibilities. (Current statutes only specifically provide for the commission to receive and investigate Title VI complaints.) Some persons have

expressed concern that the program is understaffed. Title VI staff currently consists of the program coordinator, a secretary who also functions as the commission's receptionist, and an administrative staff person who serves as the commission's personnel officer.

# Department of Labor and Related Entities

January 2000

### The Department Cannot Fully Enforce Workers' Compensation Laws\*

Sections 50-6-102 and 50-6-405, *Tennessee Code Annotated*, require that all employers with five or more employees carry workers' compensation insurance. However, the department does not have an effective system in place to identify all employers with five or more employees and, therefore, cannot ensure that all those employers have workers' compensation insurance and that employees will be compensated in the event of a job-related injury.

### The Department Is Not Sending Delinquent Tennessee Occupational Safety and Health Administration (TOSHA) Citation Cases to the Attorney General's Office

Section 50-3-107, *Tennessee Code Annotated*, requires that the department refer any occupational safety and health-related fine or penalty which remains unpaid for more than six months to the Attorney General's office for enforcement. According to a June 7, 1999, TOSHA report, 613 penalties were past due, and 558 (91%) of those penalties, totaling \$1,852,288, were 180 days or more past due. However, although TOSHA has procedures specifying the preparation of a quarterly report on delinquent penalties, staff in the Attorney General's office stated that they do not routinely receive these reports. Our discussions with Department of Labor staff indicated that, although the reports on delinquent penalties have apparently been prepared (at least part of the time), there is confusion about who was responsible for sending the information on delinquent penalties to the Attorney General's office.

# **TOSHA** Needs to Continue Monitoring and Improving Its Penalty Assessment Practices

In its previous evaluation report on TOSHA, the U.S. Department of Labor, Occupational Safety and Health Administration (OSHA), recommended that TOSHA reevaluate its penalty calculation practices and take appropriate steps to ensure that its penalty levels become more comparable to the national average. In the February 1999 evaluation report, OSHA recommended that TOSHA "supervisors should thoroughly review safety case files to assure that compliance officers assign proper values for frequency of exposure, proximity to the danger zone, working conditions, other factors and size during penalty assessment. Penalties must be designed to provide an incentive for the employer to correct violations voluntarily." It appears that TOSHA is working to address concerns regarding penalty assessment, but further improvement still needs to be made.

### TOSHA's Abatement Periods Exceed OSHA's Recommended Time Periods

In its performance evaluation report for April 1996 through September 1998, the U.S. Department of Labor, Occupational Safety and Health Administration (OSHA), criticized TOSHA for setting abatement periods that exceeded what would normally be needed to correct many of the hazards noted by the compliance staff. An OSHA activity measures report indicated that the number of serious health violations for which TOSHA assigned abatement periods greater than 60 days had increased during the evaluation period. The report also noted that TOSHA continued to set extended initial abatement periods for serious and other violations that could be more quickly abated.

### Some Divisions Have Not Used Their Authority to Assess Penalties for Violations of the Law

Despite having the statutory authority to assess penalties of up to \$100,000, the Workers' Compensation Division has not assessed penalties from employers who have never carried workers' compensation insurance or have let their coverage lapse. In addition, since 1996, when rules authorizing penalty assessments were approved, the Labor Standards Division has not assessed any penalties for wage regulation violations. Our review of a May 1999 department listing entitled "Wage Regulation Penalties" detailed 26 cases; no penalties were assessed, but 3 of the cases were sent to the department's legal section because of nonpayment of wages due employees, and 2 other cases were referred to the U.S. Department of Labor.

### The Board of Employee Assistance Professionals Is Not Self-Sufficient

The board was created in 1993 to license and regulate employee assistance professionals (EAPs), who provide services to the public through programs designed to assist in identifying and resolving job performance problems in the workplace. During calendar year 1998, the board issued only 63 licenses and was not close to being self-sufficient. Sections 4-3-1011 and 4-29-121, *Tennessee Code Annotated*, require that professional licensing boards attached to the Departments of Health and Commerce and Insurance be self-sufficient. Although the Board of Employee Assistance Professionals is not attached to either of those departments, the board has the same duties and responsibilities as other licensing boards and it seems reasonable that this board should meet the same requirements.

### The TOSHA Labor Advisory Council Has Not Met in Seven Years

The TOSHA Labor Advisory Council was created by Section 50-3-919, *Tennessee Code Annotated*, to advise the Department of Labor on all matters in Tennessee pertaining to OSHA. A review of the council's minutes indicated that the council has not met since April 1992, when it adjourned because of the lack of a quorum.

### Members of the Department's Boards, Committees, Commissions, and Councils Do Not File Conflict-of-Interest Disclosures

The Department of Labor does not require that members of its related boards, committees, commissions, or councils complete a conflict-ofinterest disclosure form. No statute requires written disclosure, and nothing came to the auditor's attention during this audit to indicate that board, committee, commission, or council members were influenced by personal or professional conflicts of interest. However, without a means of identifying potential conflicts of interest and discussing and resolving them before they have an impact on decisions, members could be subject to questions concerning impartiality and independence.

### **Department of Personnel**

### June 1999

### Hiring Agencies Expressed Concerns About the Register System

Staff from the ten state agencies that use the department's register system most often identified the following major areas of concern: the need for more flexibility in hiring and promoting; the need for improvement in the system for certifying job applicants (specific weaknesses cited included rigid rating standards, no personal interviews, and no verification of applicant information); clogged registers; and management oversight of the rating process.

### Some Southeastern States Have Decentralized Their Selection **Systems**

Several southeastern states and the federal government have moved toward a more decentralized selection (i.e., hiring and promotion) system in an attempt to provide hiring agencies more flexibility and to make hiring and promoting more efficient and effective. In addition, the legislative and judicial branches in Tennessee already use decentralized selection methods. The audit discusses several decentralized systems, the controls built into those systems, the advantages and disadvantages of decentralized systems, related legal issues, and strategies for implementing decentralization.

### **Job Applicants Are Generally Satisfied**

Our survey of 200 successful and 200 unsuccessful applicants indicated that both groups of applicants were satisfied overall with the Department of Personnel's services—the information and assistance provided, the timeliness of application processing, and the rating process. Some applicants did, however, raise concerns about the availability of certain types of information, the adequacy of the rating process, low pay, and delays in hiring.

### Agencies' Annual Affirmative Action Plans Are Not Submitted **Timely**

Our review of submission dates indicated that no executive branch agency, including the Department of Personnel, met the deadline set by the department for submission of fiscal year 1998 affirmative action plans. Although the department is required to report instances of

noncompliance in its annual report to the Governor, as of July 1998, the department had not submitted an annual report for either fiscal year 1997 or 1998. The department does prepare quarterly analyses of the numbers and percentages of minority and female employees in state agencies' work force.

# The Process for Cases Appealed to the Civil Service Commission Is Lengthy

Grievances appealed to the commission are first heard by administrative law judges; an employee who is not satisfied with that decision can then appeal directly to the commission. We reviewed 27 cases filed with the commission during calendar years 1996 and 1997—15 of these cases were closed; 12 were open. Twelve of the closed cases had been heard only by an administrative law judge; the average processing time for these cases was 306 days. The administrative law judges' decisions had been appealed to the commission in three of the closed cases—the average processing time for these cases was 449 days. As of August 17, 1998, the 12 open cases we reviewed had not yet been heard by the administrative law judges and had been open for an average of 441 days.

### The Department Has Provided Insufficient Guidance Regarding the Use of Administrative Leave With Pay, Particularly for Disciplinary Cases

Beyond very brief, general descriptions, the department has developed no written policies or procedures to guide state departments and agencies in determining when it is appropriate to place employees on administrative leave, how long employees may remain on administrative leave with pay, and what documentation should be maintained to support their decisions. Of particular concern are cases involving employees who are placed on administrative leave with pay pending disciplinary actions.

Tennessee Wildlife Resources Agency/ Tennessee Wildlife Resources Commission March 2000

### The Commission Has No Conflict of Interest Policy, Even Though It Often Makes Decisions on Issues That Could Possibly Affect Members Personally or Financially\*

The commission benefits from having members who are interested in TWRA's activities or have expertise in related areas. However, several commission members have financial interests in businesses that could be directly affected by commission actions, for example, companies that sell boats or personal watercraft and companies that dredge sand and gravel from rivers or that use sand and gravel to build roads. Other commissioners may have personal agendas that could be advanced through commission decisions. Because of the potential for conflicts of interest, it is particularly important that these conflicts be acknowledged and resolved. Currently, new commissioners are not educated about conflicts of interest during their orientation, nor are any forms provided on which members can disclose potential personal or financial conflicts.

## TWRA Does Not Have an Adequate, Reliable Funding Source for Nongame Programs\*

Despite the increasing public interest in nongame and endangered or threatened species, programs focused on these species (which represent 90 percent of Tennessee's wildlife species) accounted for less than four percent of TWRA's wildlife-related expenditures in fiscal year 1999. Although Section 70-8-102, *Tennessee Code Annotated*, establishes that the state's policy is to manage nongame wildlife and to protect endangered or threatened species and Section 70-8-110 mandates that the cost of the programs be borne by the general fund or other sources, no general fund monies were allocated to the program in 1999 and no reliable funding source has been established. Without adequate and reliable funding sources, TWRA cannot appropriately manage numerous nongame species and the public's increasing demand for nonconsumptive programs, such as wildlife watching.

## Sportsmen's Dollars Subsidize TWRA's Regulation and Management of Commercial Fishing and Musseling

Program costs for regulating and managing commercial fishing and musseling in Tennessee exceeded revenues from commercial license fees by more than \$515,000 during the 1998-1999 license year. Because program revenues do not cover costs, TWRA must use funds from other sources to make up the difference. Federal law prohibits the use of federal funds to support commercial purposes. Therefore, TWRA has used revenues derived from the sale of recreational hunting and fishing licenses, fees, and permits to subsidize the agency's administration of commercial, for-profit operations.

#### The Commission Does Not Appear to Have Fully Complied With Laws Concerning Endangered Species

According to Section 70-8-102, *Tennessee Code Annotated*, it is the policy of the state of Tennessee to protect threatened or endangered species; Section 70-8-107 requires that the commission issue the necessary regulations. In addition, Title 50, Section 17.11, Code of Federal Regulations, requires that species which are "sufficiently similar in appearance" to threatened or endangered species be treated as threatened or endangered species in order to prevent accidental taking. Despite these requirements, recent actions by the commission raise questions about whether it is appropriately protecting Tennessee's endangered mussel species in all cases.

#### **Tennessee Does Not Have a Boat Titling Law**

As legal documents showing ownership, boat titles provide legal protection of the rights of vessel owners and lien holders, allow tracking of the interstate transfer of vessels, and provide a permanent record of the boat regardless of the number of registration transfers. Tennessee's lack of a law requiring boats to be titled may contribute to the high number of boats reported stolen and may make it easier for stolen boats to be registered in Tennessee. For the period January 1

through July 13, 1999, Tennessee ranked tenth in the nation in the number of stolen boats, according to information from the National Insurance Crime Bureau.

## TWRA's Oversight and Controls Over Some Contracts Need Improvement

TWRA's central office staff do not maintain copies of all cooperative farming contracts and bid paperwork, as required by internal field orders, and are not always notified of contract changes. In addition, the agency does not audit the permit sales records of companies whose public hunting area contracts include a guaranteed minimum amount of revenue. As a result, management lacks sufficient information to oversee and control some contracts and to ensure that the payments made are appropriate.

## TWRA Does Not Have an Internal Audit Function to Monitor the Agency's Internal Controls\*

The Division of State Audit's financial and compliance audit of TWRA for fiscal years 1997 and 1998 repeated a finding (for the 19<sup>th</sup> consecutive year) that the agency did not have sufficient controls over cash receipts. That report also contained a finding that the agency needed to improve controls over its equipment. These issues and others such as contract oversight problems identified during this performance audit, highlight the need for an internal audit function (placed high enough in the organization to maintain independence) to review controls and recommend changes needed to help safeguard the agency's assets and ensure compliance with laws and regulations. TWRA currently employs a staff person who is classified as an auditor, but he reports to the Fiscal Director, rather than the Executive Director or the commission, and his duties consist mainly of accounting tasks.

Overall, the audit report concludes that the operations of the Board of

#### **Board of Professional Responsibility** May 2000

Professional Responsibility are efficient, effective, and are achieving the results desired by the Tennessee Supreme Court. Areas of concern are addressed in appropriate items. One issue noted is the 12% increase in number of complaints filed with the board between 1997 and 1999. This and other factors caused a 30% increase in average case resolution time. The board plans to address this by implementing a Client Assistance Program, expected to begin in 2001. Another issue is notification of the board by a court when an attorney has refused to comply with a court order or has been convicted of a felony or other serious crime. Although the Supreme Court Rules require notification by the court clerk, this has not always happened. The court may wish to amend its rules to also require judges to report when an attorney does not comply with a court order and when an attorney is convicted of a felony or other serious crime.

The board may also wish to include information in the complaint packet mailed out to callers listing alternative agencies that may be

better equipped to handle the situation.

#### Inmate Incarceration Costs and Security Staff Morale – Special Report

December 1999

#### **Daily Inmate Incarceration Cost**

The Division of State Audit developed a model to provide decision makers with detailed information on incarceration costs. The model provides the incarceration cost of an inmate at a given facility, a variable inmate rate, and an approach for identifying and analyzing differential costs. It includes actual maintenance costs, capital costs, and debt service in its calculation.

#### **Security Staff Turnover and Morale**

Turnover in correctional officer positions has been a problem in the department. A Division of State Audit survey of current and former security staff showed that most current security staff are at least satisfied with their jobs, but the survey also indicates areas where staff believe improvements could be made. Areas of dissatisfaction include salary, staffing, and schedule flexibility.

### **Special Investigations and Information Systems**



Glen McKay, Ph.D., MBA, CIA, CGFM, CFE Assistant Director

#### **Special Investigations**

Authority to conduct special investigations is provided in part by Sections 8-4-201 through 8-4-208, *Tennessee Code Annotated*. The Special Investigations Section gathers information and evidence resulting in prosecutions and recovery of funds and coordinates the efforts of other agencies involved in the investigation. The investigators assist local district attorneys general, Tennessee's Office of the Attorney General, and the Office of the United States Attorney General.

Investigative reviews are initiated as a result of information discovered during audits by the Department of Audit and through information from individuals or other departments and agencies. The matters investigated during the Fiscal Year Ended June 30, 2000, ranged from embezzlement of public funds to abuse of public resources. Investigations were completed on matters at the state level as well as matters at the local level. Investigators often found that losses were incurred as a result of weak internal controls or ineffective management.

Our investigative reviews resulted in the recovery of \$66,896.75 during Fiscal Year 2000. Illegal activities exposed during Fiscal Year 2000 resulted in two convictions and one indictment. As a result of the exposure of their activities, three state employees were terminated from employment with the state, two resigned, five were suspended, and one was demoted.

Since October 1983, the Department of Audit has provided a toll-free hotline for reporting fraud, waste, and abuse of government funds and property. Periodicals throughout Tennessee publish information to alert citizens to the hotline and encourage them to report wasteful, inefficient, or fraudulent activities. In addition, agencies receiving community grant

funds are required to display in a prominent place signs calling attention to the hotline. Since its inception, the hotline has received 7,657 calls, including 381 calls between July 1, 1999, and June 30, 2000. Of those 381 calls, 143 concerned allegations of abuse or fraud and the remaining 238 represented requests for assistance or information. The substantive calls—those relating to abuse or fraud—concerned a wide range of entities, including municipalities, counties, and state agencies and departments. Substantive calls are investigated by the Department of Audit or referred to the appropriate state agency or program. Other callers—such as those requesting tax information—are referred to the appropriate agency or department that can provide assistance.

The Special Investigations Section's contribution to the state is significant in that the section exposes abuses of public property and funds and, when possible, aids in the recovery of funds lost through illegal activities. Furthermore, as a result of our special investigative reviews, agencies that have been the victims of abuse are able to develop better controls to prevent, or at least deter, future occurrences of fraud, waste, or abuse.

#### **Results of Investigations**

The following are summaries of the results of the special reports released during the year ended June 30, 2000.

#### Project Return – Improper Use of Agency Credit Cards for Personal Charges July 1999

Project Return is a private, nonprofit agency that provides employment and rehabilitative assistance to ex-offenders and their families. The agency receives an annual direct appropriation of \$200,000 from the General Assembly.

Our review determined that, between March 1992 and May 1998, Project Return's Executive Director, Ms. Jean Albritton; its bookkeeper, Ms. Christine Hamilton; and one of its senior Job Development Counselors, Mr. Walter Phillips, used agency credit cards for personal expenses. Our review also determined that the three owed the organization reimbursement for outstanding charges totaling \$65,801.26.

The use of agency credit cards for personal expenses is an obvious abuse of agency funds. The practice, perpetuated by key agency staff, was not subject to any internal controls. In allowing the practice, the board of directors failed to ensure state-appropriated funds were used for intended purposes. Ms. Albritton and Mr. Phillips resigned. Ms. Hamilton's employment was terminated unrelated to her personal use of the agency's credit cards. As a result of our review, the board members active during the time agency staff used credit cards for personal use either resigned or left the board because their term limits had expired. The agency no longer uses credit cards and is pursuing recovery of the \$65,801.26.

#### Middle Tennessee State University – Improper Awards by the Financial Aid Director July 1999

Our review determined that Mr. Robert Winston Wrenn, the former Middle Tennessee State University (MTSU) Director of Financial Aid had over-awarded \$9,237 to a relative during the fall semester of 1997. He had also previously approved improper disbursements of seven federal Stafford Loans totaling \$71,250 to himself and four of his relatives. In contravention of MTSU policies and procedures and federal regulations, Mr. Wrenn personally obtained—directly from the bank—all of the checks generated for the seven loans and deposited checks totaling \$20,424.50 into his personal bank accounts.

In addition to the improper activities that benefited himself and his family members, Mr. Wrenn instructed a financial aid office clerk to improperly change information on six federal financial aid applications to make students who were actually ineligible for federal Pell Grants appear eligible. Those students received Pell Grant funds—for which they were not eligible—totaling \$13,584 for the 1996-1997 academic year.

Our review also found that, between June 1993 and April 1995, Mr. Wrenn awarded an MTSU employee institutional financial aid totaling \$33,797.50 to supplement the employee's salary. The employee admitted obtaining student status for himself solely to receive financial aid and not to pursue educational objectives. Those institutional funds awarded to the employee reduced the amount of financial aid funds available to MTSU students who were pursuing appropriate educational objectives and had legitimate financial need.

As a result of our review, MTSU terminated Mr. Wrenn's employment with the university. Mr. Wrenn was indicted by a Rutherford County Grand Jury on five counts of official misconduct, one count of theft over \$60,000, and one count of tampering with or fabricating evidence. Mr. Wrenn subsequently pled guilty to five counts of official misconduct and one count of theft over \$10,000. He received a sentence of six years of probation, during which he will be required to pay back \$10,400 which he illegally received from MTSU funds, pay back over \$100,000 in loans that he illegally received from MTSU institutional and federal loan programs, refrain from acting as a financial aid director, and refrain from any further criminal violations. As of June 22, 2000, Mr. Wrenn had made a partial restitution payment of \$4,461.68 to MTSU.

Nashville State Technical Institute – Theft of \$4,679.61 October 1999 Special Investigations staff were notified by Tennessee Board of Regents staff that someone had stolen a blank check from Nashville State Technical Institute and negotiated it for \$4,679.61 at a bank in St. Louis, Missouri. The review— conducted in conjunction with the institute's internal auditor—did not determine who took or negotiated the check. However, the review did disclose that the stolen check was from a group of checks that should have been shredded in October and November 1997. The shredding activity had not been appropriately structured or controlled by the institute's business office staff.

Department of Children's Services – Falsification of State Insurance Forms and Subsequent Submission of Improper Claims on Behalf of Ineligible Recipients October 1999 Our review determined that Ms. Sammie D. Mitchell, a Case Manager at the Tennessee Preparatory School, had falsified state insurance forms, resulting in the improper payment of insurance claims on behalf of her ex-spouse. The improper payments totaled \$52,983.33. Ms. Mitchell admitted listing Mr. Robert Mitchell as her legal spouse on state insurance forms dated August 24, 1990, and November 15, 1991, despite the fact that they had divorced on May 2, 1988, and were not married at the time she completed the forms.

Ms. Mitchell's employment with the preparatory school was terminated for gross misconduct. Ms. Mitchell was charged with—and pled guilty to—Theft of Property over \$10,000. Ms. Mitchell was placed on three years of probation and ordered to pay restitution.

Department of
Transportation –
Allegations of
Improprieties Involving
Road Construction and
Railroad Crossing Upgrade
Contracts

November 1999

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Our review was predicated on allegations of improprieties involving Department of Transportation staff in connection with road construction contracts and railroad crossing upgrade contracts. It was determined that all of the allegations were made without specific knowledge and that those related to construction contracts were based purely on speculation. Nevertheless, in light of the seriousness of the alleged offenses, our office decided to review two central issues: 1) whether the department had appropriate support for supplemental agreements to road construction contracts, and 2) whether a departmental employee had manipulated or disregarded the railroad project priority list to favor a certain railroad.

With regard to road construction contracts, it was alleged that some construction companies in Tennessee would submit unreasonably low bids for road construction contracts and, after they were awarded the contract, would submit requests for additional work and fees. In this way, the state would be paying a higher final cost on what initially appeared to be a low bid. Our review revealed a need for greater documentation of decisions for supplemental agreements and incentive bonuses. However, we did not substantiate the speculation of intentional underbidding on contracts.

With regard to the railroad project priority list, it was alleged that the director manipulated or disregarded the priority list to favor the Tennessee Southern Railroad Company (TSRR). The allegations were apparently based on the belief that some railroad crossings were not upgraded despite having higher priorities on the department's list than TSRR crossings that were upgraded. Our review revealed serious shortcomings in the way railroad crossing upgrade decisions are made. There is a need for better documentation of decisions and it is clear that several unjustified and inappropriate decisions were made. However, it does not appear that the allegations regarding TSRR were supported.

Tennessee Department of Employment Security – Improper Authorization of \$1,810 in Unemployment Benefits and Solicitation of a \$540 Kickback by an Interviewer II January 2000

Our review substantiated that Mr. Anthony McAdoo, a Tennessee Department of Employment Security (TDES) Interviewer, violated provisions of the TDES Internal Security Handbook (Handbook) in his handling of the claim of Ms. Sheila Williams. (TDES is currently known as the Department of Labor and Workforce Development.) Available information indicates that Mr. McAdoo violated *Handbook* provisions, including those forbidding: the request or acceptance of consideration other than regular pay in return for the performance of official duties; the input of false data into TDES records; the use of other employees' computer access codes; and the unauthorized alteration of official documents. Those violations caused Ms. Williams to receive \$1,810 of unemployment benefits she was ineligible to receive. Ms. Williams apparently did not realize that the payments were improper at the time she received them. Mr. McAdoo told her he had reviewed her case and determined she was eligible. According to Ms. Williams, although Mr. McAdoo subsequently requested money from her, she refused to pay him anything.

Mr. McAdoo signed an agreement with TDES that allowed him to resign, in lieu of termination for misconduct, without acknowledging either the nature or content of these charges against him. The terms of that agreement also provided that TDES would withhold \$1,800 from the salary, leave, and bonus amounts due Mr. McAdoo.

TDES employees Ms. Beverly Parker and Ms. Ann McCracken each received a written reprimand for violating *Handbook* provisions by making it possible for Mr. McAdoo to use their access codes to enter data into the TDES computer system. It is unclear how Mr. McAdoo obtained their access codes, but the *Handbook* holds each employee strictly liable for all entries under her code and provides specific instructions on how to prevent other persons from obtaining it.

Department of Transportation – Theft of Property from the Knoxville Garage January 2000 Our review determined that a total of \$10,533.32 in property was ordered for personal use and charged to the Knoxville Regional Garage's accounts with various vendors between August 1, 1996, and July 7, 1997. The department actually incurred a total direct loss of \$8,531.93 because \$2,001.39 of the invoices totaling \$10,533.32 were still being processed and were not paid by the department after it was determined that the items were not legitimate orders for state vehicles. As a result of our review, the department recovered \$7,687.56 of the total loss sustained from the theft of property from the garage.

The department took administrative action, including the dismissal of Mr. Harry Perkins, an Equipment Mechanic I, from state service. Mr. Teddy Plemons, a Materials Assistant II, received a written warning from the department on March 4, 1998. The department accepted the resignation of Mr. Rex Williams, an Equipment Mechanic II, in lieu of disciplinary action. In addition, Mr. Tommy Johns, a salesman employed by Dealer Service Parts (DSP), was allowed to resign.

Mr. Plemons made a payment to DSP for \$240.50 relating to the personal items he ordered that were charged to the department. The department also received \$146.67 from Mr. Williams as restitution for his personal purchases.

Mr. Perkins pled guilty to theft of property under \$10,000. He was sentenced to serve two years of probation and ordered to pay \$5,954.22 in restitution to the state. Mr. Perkins made full restitution to the department. Mr. Johns pled guilty to theft of property under \$1,000. He was put on probation for two years and ordered to make restitution of \$969.23 to the state. Mr. Johns also made full restitution to the state.

During the review, extended sick leave taken by Mr. Larry Kelley, a Mechanic I, was questioned after statements he made in an interview. Mr. Kelley admitted that during his period of extended sick leave—December 23, 1997, through March 17, 1998—he drove in a race event and also worked as a mechanic for a friend. Mr. Kelley's abuse of sick leave resulted in his receipt of a payment of \$1,746.21 from the State of Tennessee's Sick Leave Bank. The department terminated Mr. Kelley's employment. After being notified of this matter, the Department of Personnel withheld further payments from the Sick Leave Bank to Mr. Kelley.

Department of Labor and Workforce Development, Nashville Special Projects Office – Improper Use of State Equipment and Resources by the Office Manager

February 2000

Our review, conducted in conjunction with the department's internal auditor, revealed improper use of state office equipment and resources by Mr. Kendell Stephens, Manager of the Nashville Special Projects Office, Department of Labor and Workforce Development (known as the Department of Employment Security at the time of this review). Mr. Stephens was Office Manager of the Nashville Special Projects Office at the time.

Mr. Stephens was found to have improperly used state office equipment and resources on behalf of his second job as Sports Information Director for Fisk University. The review also found that, contrary to department policies that he was aware of, Mr. Stephens operated an employment agency—on state time and using state resources—to find jobs for his friends and other individuals who were not department clients. Mr. Stephens also allowed those non-clients to use state resources, such as computers, a fax machine, a copier, state-issued bus passes, and other supplies.

The department's corrective actions against Mr. Stephens included his demotion from Employment Security Manager I to Employment Security Interviewer II, a suspension for five workdays without pay, and a two-step salary decrease. Mr. Stephens was also transferred. In addition, Mr. Stephens paid \$53.29 as reimbursement for his use of state telephones for personal long-distance calls.

Department of Agriculture
– Theft of \$8,702.15 by the
Administrative Secretary of
the Henderson County Soil
Conservation District
February 2000

Our review revealed the misappropriation of \$8,702.15 from the Henderson County Soil Conservation District (Soil District), by the Soil District's former Administrative Secretary, Ms. Melody Stanford. Ms. Stanford admitted to knowingly misappropriating Soil District funds over a one-year period. Ms. Stanford stated that she effectuated her misappropriation by writing Soil District checks naming herself as payee, signing the checks in her signatory capacity, and then negotiating the checks as the endorser. We found that Ms. Stanford negotiated 27 such checks drawn on the Soil District's account. The Soil District terminated Ms. Stanford's employment.

Ms. Stanford pled guilty to theft over \$1,000, and was sentenced to four years of probation and ordered to pay \$8,702.15 in restitution to the state. Ms. Stanford made full restitution to the department.

Department of Children's Services – Improper Authorization of Daycare Services by a Clerk in the Memphis Region April 2000 Our review determined that Ms. Evelyn Hester, a clerk in the Memphis office of the Department of Children's Services, had requested bribes in return for authorizing daycare placements. Ms. Hester admitted improperly requesting and obtaining money from daycare operators as well as parents and guardians of daycare recipients. Of the eight daycare operators we interviewed, three acknowledged paying an estimated \$1,035 to Ms. Hester after she had personally provided them documentation listing the names of children that would be attending their daycare centers and requested money. In addition, one parent and one guardian of daycare recipients acknowledged paying Ms. Hester \$50 each (\$100 total) to authorize daycare services for their children.

Ms. Hester further admitted placing approximately 50 to 100 ineligible recipients in various daycare centers. Ms. Hester was able to make those improper placements because she was given sole responsibility for handling the processing of daycare referrals for the region with little or no oversight. Children reported to the department as abused or neglected may be assessed by a department caseworker as being eligible for daycare services. Ms. Hester's responsibilities included processing daycare referral forms, approved by a caseworker and supervisor, and forwarding documentation to the regional brokerage organization to initiate the daycare services. In instances where the parent or guardian did not personally select a daycare center, Ms. Hester also had the responsibility of selecting a daycare center from a list of licensed facilities.

We determined that the state paid \$38,052.30 for daycare services provided to ineligible recipients based on false documentation that Ms. Hester prepared and submitted to the daycare brokerage organization. We also determined that—based on Ms. Hester's representations—several daycare centers had provided services to 35 recipients without obtaining the appropriate authorization certificates from the state. At

the prescribed reimbursement rate those centers would have received from the state, the approximate loss to the centers totaled \$20,160.

We requested that department officials review all 737 daycare recipients in the Memphis region. That review determined that, of the 737 daycare recipients, 341 were eligible for services and 228 were not eligible for services. The amount improperly paid on behalf of the ineligible recipients totaled \$548,652.32. Department staff could not determine the eligibility of the remaining 168 recipients because the records relative to daycare services were insufficient to properly document authorization. Payments for those 168 recipients totaled \$529.797.70.

Ms. Hester resigned. A Shelby County Grand Jury indicted Ms. Hester on one count of official misconduct and four counts of bribery.

Tennessee Rehabilitative Initiative in Correction, Central Garage, Department of Safety, Title and Registration Division, Tennessee State University, Cooperative Agricultural Research Program – Theft of State Property May 2000 The Division of State Audit was informed that a state vehicle had been stolen from the Tennessee Rehabilitative Initiative in Correction (TRICOR) Central Garage. During the course of the investigation of the stolen vehicle, several other improprieties were discovered at the TRICOR garage. These improprieties included the theft, repair, and sale of three tractors from Tennessee State University (TSU); the theft of two used engines and a used generator; the improper use of inmate labor and theft of vehicle parts; and the submission of false claims to Laidlaw, Inc., an environmental specialist company located in Nashville. The TRICOR garage was closed and has not been reopened.

The auditors determined that several individuals were involved in the improprieties at the TRICOR garage. Mr. Donald Knipfer, an inmate worker at the TRICOR garage, admitted his participation in the theft of the state car. Mr. Knipfer acknowledged that he had colluded with Ms. Pamela Newman, an Exam Clerk 2 with the Department of Safety's Title and Registration Division, to have a bogus title created for the vehicle. While delivering that bogus title to Mr. Knipfer, Ms. Newman was accompanied by Ms. Patsy Parrigin, also an Exam Clerk 2. Mr. Knipfer admitted that he had arranged with Mr. Vernon "Woody" Hayes, a private individual, to have the vehicle picked up and sold. Mr. Knipfer stated that for a payment of \$500, Mr. Jerry Arnold, the manager of the TRICOR garage, had agreed to be absent from the garage when the state car was taken.

The investigators also determined that Mr. Arnold had participated in the theft, repair, and sale of three tractors from TSU. Two TSU employees arranged this transaction with Mr. Arnold: Mr. Jeffrey Hillsman, the Superintendent of Farm Property; and Mr. William "Bubba" Malone, a Horticulture Technician. In addition, inmate labor was used to repair the tractors.

The investigators further determined that the TRICOR garage had entered into a contract to refurbish 15 bookmobiles for the state's regional libraries. This refurbishing included, in some cases, replacing engines and generators. Mr. Knipfer admitted that he had sold a used engine and a used generator and arranged for the sale of a second used engine. Mr. Knipfer stated that Mr. Arnold was aware of, authorized, and participated in the sale of one of the engines.

TRICOR management terminated Mr. Arnold's employment. The Department of Safety terminated the employment of Ms. Newman and Ms. Parrigin. Tennessee State University terminated the employment of Mr. Hillsman and Mr. Malone.

Mr. Arnold, Ms. Newman, Mr. Hayes, and Mr. Knipfer were indicted on various counts. Mr. Arnold pled guilty to conspiracy to commit theft of property, theft of property, and official misconduct. On those convictions, he received a sentence of six years. He also pled guilty to official misconduct and received a sentence of two years. Those sentences were to run consecutively for a total of eight years. The court suspended that sentence and placed Mr. Arnold on probation for the eight-year period. In addition to his probation, Mr. Arnold was required to pay a \$5,000 fine and restitution. Ms. Newman pled guilty to conspiracy to commit theft of property, theft of property, and two counts of forgery and official misconduct. She was sentenced to three years of probation, and the judge specified that her record may not be expunged. Mr. Hayes was indicted, but all charges have been dropped because he has since passed away. Mr. Knipfer is currently serving time in a prison in Kentucky.

Tennessee State University – Overpayment to Metropolitan Nashville Police Officers for Security Services, Misappropriation of \$2,000 From Bank Deposits, and Misappropriation of \$19,474 From "Cash to Card" Vending Machines May 2000

Our reviews revealed overpayments by Tennessee State University (TSU) to Metropolitan Nashville Police Department (Metro Police) officers for security services and also misappropriations of TSU funds from bank deposits and Debitek "Cash to Card" vending machines. The review of the vending machine thefts was conducted jointly with TSU Internal Audit staff.

With regard to Metro Police officers, we determined that TSU arranged with the officers to provide security for basketball and football games, special events, campus parties, registration, and off-campus housing complexes. Officer Henry Perry was the school's contact at Metro Police, and all arrangements for acquiring the services of Metro Police officers were made through him.

Our review determined that Officer Perry was overpaid \$329.68 and three other Metro Police officers were overpaid \$82.54. The three Metro Police officers stated that they had relied on Officer Perry to properly record their time worked at TSU.

The review disclosed several internal control weaknesses at TSU. First, TSU did not record each officer's work hours with sufficient specificity. Second, no TSU employee was responsible for ensuring that the Metro Police officers were actually at work. Because of the resultant lack of information, it was impossible to ascertain whether officers had worked during all the hours they had claimed.

With regard to the thefts from bank deposits, our review determined that, on two separate days, Ms. Dianne Eaton, the Cashier Supervisor at the TSU Bursar's Office, inaccurately prepared forms for daily bank deposits and understated each deposit by \$1,000. Ms. Eaton acknowledged the deposit errors but denied taking the \$2,000. We were unable to determine who had taken the cash that had not been deposited.

Our review revealed weaknesses in internal controls over TSU deposits. At the time of the shortages, the method of monitoring and restricting the issuance of the Bursar's vault combination and the issuance of keys to the Bursar's Office and the Cashier's Office did not properly control access to the Bursar's Office vault. The vault was also not properly protected by the security alarm system.

With regard to the "Cash to Card" machine shortages, our review revealed that, between September 28, 1998, and May 4, 1999, the machines—used by students, faculty, and staff to credit money to their campus identification cards or visitor cards—accepted a total of \$102,425 yet yielded only \$82,951 during the normal collection processes, a \$19,474 shortfall.

Our review found that weaknesses in internal controls allowed an unidentified person or persons to obtain a key to the "Cash to Card" machines and to improperly remove the money. TSU management did not know how many keys were shipped with the machines, if any keys were missing, or who could have taken any missing keys. In addition, the shortfall went undetected for approximately ten weeks because the Cashier Supervisor, Ms. Dianne Eaton, did not follow or enforce TSU's written policy or established procedures for collecting and reconciling the "Cash to Card" revenues. Furthermore, the Bursar, Ms. Jocelyn Thomas, did not require the cashiers to record the names of TSU personnel involved in the cash collections. Thus, the auditors were unable to determine who made the collections on the days of the shortages, and we could not determine who had stolen the missing funds.

TSU terminated Ms. Eaton's employment with the university.

Department of Transportation, Right-of-Way Division – Improper and Inept Manipulation of Contracts to Obtain Computer Programming Services and Computer Equipment May 2000 Our review determined that staff in the Department of Transportation's Right-of-Way Division had improperly used supplemental agreements to appraisal and consultant contracts to acquire computer equipment and programming services, as well as hazardous waste and remainder studies and training for division staff. The review was initiated based on an allegation regarding a September 1996 appraisal contract entered into with Mr. John M. Hahn, Jr., a private appraiser, for appraisal work in Williamson County. Division staff added six supplemental agreements to Mr. Hahn's contract, totaling \$34,908.60, to purchase computer programming services.

By using supplemental agreements to Mr. Hahn's contract as a payment vehicle for computer programming services, division staff circumvented proper procurement procedures: competitive bids were not solicited for the award of the contract; there was never a written contract between the division and the computer programmers; and division staff did not seek required approval from the department's Information Technology (IT) Division before procuring the services. As a result, the IT Division was excluded from participation in the acquisition or performance of the computer programming work.

In addition, Mr. Hahn, the private appraiser through whose appraisal contract the services were acquired, was paid an inappropriate fee of \$3,478.60 to "manage" the contract. In fact, the only duties Mr. Hahn performed in exchange for that fee were submitting six invoices to the department and mailing or hand-delivering six checks to the computer programmers who actually performed the programming work. Mr. Hahn and division staff acknowledged that he had no computer expertise and that his "management" role was only to ensure the programmers were paid in a timely manner.

Our review also disclosed a second issue, that from April 1990 to April 1998, 51 consultant contracts contained language requiring the consultant to provide a computer system (CPU, monitor, and printer) to the division as part of his or her performance of the contract. This acquisition method circumvented established procurement procedures requiring the purchase of computer equipment through the department's IT Division.

Mr. Don Minnigan, former director of the division, implemented the practice in the early 1990s. Mr. Minnigan told us that he decided to purchase computers in this fashion because he did not want to develop the required long-range purchase plan and await its approval by the department's IT Division. He said that he did not seek approval of this purchasing method from his superiors or inform them of his addition of the clause to the contracts.

In addition to circumventing departmental purchasing procedures, this improper procurement method had several consequences that should

have been easily foreseeable by division staff. The "immediate need" cited as the reason for the practice was not satisfied by using consultant contracts to acquire the equipment, because the contract provisions did not require the consultant to remit the computer until his project neared completion, and most of the computers were, thus, outdated by the time the department received them. Also, because most of the equipment was not tagged or entered on the department's property list, it was exposed to an increased risk of misappropriation.

Mr. Marty Kennedy, the division's Director, sent a memorandum to Mr. Jenkins, a Transportation Manager and the person who promoted the use of contract supplements, stating that the practice of using appraisal contracts to acquire services unrelated to the property appraisal would not be approved in the future. Mr. Jenkins retired from the department. In addition, the department's Office of General Counsel increased its scrutiny of contracts.

#### **Information Systems**

The Information Systems (IS) section provides two basic services: data retrieval and IS systems review.

#### **Data Retrieval**

The data retrieval staff provide information for audit field work. They write computer programs to provide information from the state's centralized accounting system, individual agency service delivery systems, and college and university transaction files. Various statistical sampling techniques, together with stratification and summary reports, provide the auditor a statistical basis on which to evaluate an entity's operations.

Data retrieval staff also produce listings and perform comparisons and other procedures to detect errors or irregularities. Working closely with other audit staff, retrieval staff develop new computer-assisted audit techniques.

#### **Information Systems Review**

The IS review staff are responsible for obtaining and documenting an understanding of the internal control structure in the computerized accounting and management information systems of entities undergoing

financial and compliance audits. These entities include state agencies, colleges and universities, and quasi-governmental organizations. The

IS staff review the general and application controls within data processing systems when those systems significantly affect the auditee's operations. The results of these reviews are included in the financial and compliance audit reports. The individual computer centers for various state agencies are audited according to generally accepted government auditing standards.

#### **Developments**

During the state's preparations for the Year 2000, 327 application systems were identified by state agencies as mission critical, i.e., their failure would have a significant impact on the agencies' functions. The IS section has begun conducting Data Reliability Reviews on these application systems. These reviews are designed to assess the reliability of key elements of the application's computer processed data, assess the implementation and effectiveness of user control procedures (reconciliations and manual checks to ensure that data is complete and accurate), and to assess the manual follow-up procedures (procedures in place for error correction and review). The procedures conducted are based on the GAO's supplement to *Government Auditing Standards, Assessing the Reliability of Computer-Processed Data, and the AICPA's Audit Guide,* Consideration of Internal Control in a Financial Statement Audit.

The IS section is developing automated techniques to reduce costs and improve efficiency. The retrieval and review staff work with the financial and compliance auditors to create computer-assisted audit techniques (CAATs) that use computer programs to perform portions of the audits now done manually.

To expand its capability to perform CAATs, the division has implemented Audit Command Language (ACL) software. ACL, data analysis audit and reporting software, enables nontechnical auditors to perform sophisticated queries and analyses of financial transactions by simply clicking a mouse. Because ACL's capabilities are audit specific, yet still highly flexible, the software allows auditors to readily organize and evaluate information embedded in complex systems. IS audit staff provide support in the migration of CAATs from the mainframe to the financial auditors' personal computers.

The IS audit staff recognize that as computer-based systems become more commonplace, all auditors will need increased technical skills to perform their jobs. Toward that end, the IS section has been heavily involved with in-house training and for several years has taught classes on word processing, PC operating systems, spreadsheet software, specialized audit software, and auditing automated financial management systems. In addition, information is exchanged through contacts with other state audit organizations for ways to improve IS audit support.



Allen Barron Legislative Liaison

The Comptroller's Office provides staff to the Senate and House Finance, Ways and Means Committees for assistance with fiscal and budget information. In addition to furnishing information, the staff produces three fiscal publications for distribution to legislators and their constituents and other government agencies.

The *Fact Book*, first prepared in 1987, is an annual, pocket-sized publication that is a compilation of budget information and facts about major departments of state government. It also includes federal, state, and local budgets and graphs; revenue schedules; and various national and state data comparisons.

Analysis of Expenditures and Positions and Selected Fiscal Data, an annual publication since 1981, presents comparisons of budgets and authorized positions by showing the amount and percentage of growth over a five-year period for each department of state government. In addition, the approximately 110-page publication presents fiscal data for various state programs for the same period.

County-by-County Analysis consists of 95 sets of schedules (one set of nine schedules for each county) that detail by major programs the estimated state dollars benefiting the residents of a county. State government agencies furnish basic data for the schedules while the Division of State Audit provides significant personnel support for the project. County-by-County Analysis has been compiled each year since 1977.

## **Division of County Audit**



Richard V. Norment CIA, CGFM Assistant to the Comptroller



Arthur L. Alexander, CGFM
Assistant Director
Financial and Compliance,
Contract Audits, & CCIP Reviews

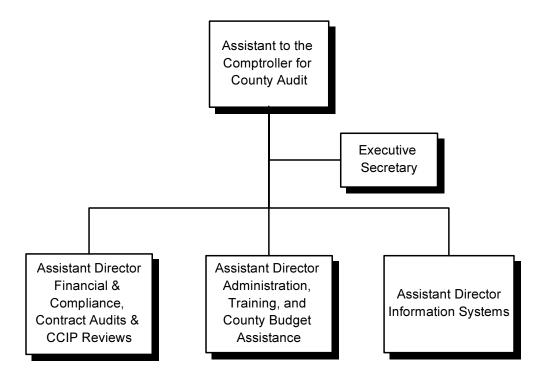


Bob Powell, CFE, CGFM
Assistant Director
Administration, Training, & County
Budget Assistance



Jim Arnette CISA, CGFM, CCP Assistant Director Information Systems

#### **Division of County Audit**



The Department of Audit, through the Division of County Audit, is responsible for the annual audits of all 95 counties in the state. The division may conduct the audit of a county or accept an audit prepared by a certified public accountant provided the audit meets minimum standards for county audits established by the Comptroller of the Treasury. However, the Division of County Audit is required to prepare an audit in each county at least once every five years or to participate with, or monitor the audit with, the certified public accountant.

#### Financial and Compliance

The division presently conducts audits in 87 counties. These audits are assigned to teams that audit the various offices and/or departments and entities of county government. The audit staff is divided into four geographical areas: East, Mideast, Middle, and West. Each area is under the supervision of an audit manager who is responsible for audit planning and supervision.

#### **Contract Audits**

In the remaining eight counties, certified public accountants perform the audits. The division monitors these audits in accordance with a four-year monitoring plan that is updated annually. Typically, the division annually reviews working papers prepared by the certified public accountants in two of the counties. The division also approves the contracts of certified public accountants and reviews their audit reports and working papers. The objective of this review is to ensure that in addition to the standards prescribed by the American Institute of Certified Public Accountants and *Government Auditing Standards* issued by the United States Comptroller General, certain standards prescribed by the Comptroller of the Treasury have been followed.

#### **Budgets/Financial Assistance Services**

In addition to the basic post-audit function and the monitoring and review of audits by certified public accountants, the division provides other services. These services include providing assistance, upon request, to counties in resolving current problems with financial administration and interpretation of laws, as well as answering questions on various local governmental matters. Technical assistance also is provided to counties in the design and installation of accounting systems, in the maintenance of other accounting records, and in the preparation of annual operating budgets.

#### **Scope of Activity**

#### Post-Audit of County Governments

The Division of County Audit conducted audits in 87 of the state's 95 counties during the 1999-2000 audit year. A minimum of ten offices or departments in each county was audited:

County Trustee Circuit Court Clerk

County Executive General Sessions Court Clerk
Department of Education Chancery Court Clerk and Master

Department of Highways Register County Clerk Sheriff

The audits of all offices were for the year ended June 30, 1999.

The audit field work in each county is conducted by an audit team. The size of the team is determined by the complexity of the assignment. Approximately ten weeks of field work are required, including audit review and supervision by an auditor 4 and/or audit manager. The draft audit reports are reviewed in the Nashville office, then printed and released. The entire process is concluded within approximately four months from the date of initial field work.

The division also prepares audits of two special school districts and performs special audits and reviews as requested or as deemed necessary.

#### **Information System Review**

Most county governments in Tennessee have automated all or a portion of their accounting systems. The information system (IS) review section is responsible for conducting reviews of those systems as part of the audit process. An audit manager supervises this section's six IS auditors, who are assigned to different areas of the state.

An IS systems review consists of a review of the general and application controls of a county's computer hardware and computerized accounting information systems. Findings resulting from an IS review are discussed with the appropriate officials and presented in a report on the internal controls regarding computer operations in the county. The IS findings also may be included in the county's comprehensive annual financial report.

IS systems reviews were conducted in 32 counties during the year ended June 30, 2000. The division anticipates that IS reviews will be conducted in 48 counties during the year ending June 30, 2001.

#### **Budget Assistance**

Several counties request the division's assistance in preparing their annual operating budgets. This technical assistance normally requires five to ten working days. The division provided budget assistance to 49 counties during 1999.

## Monitoring and Review of Contract Audits

A four-year monitoring plan is maintained by the division for counties audited by certified public accountants. The division will monitor audits of eight county governments during the next four years. The audits of McMinn and Washington Counties were monitored for the year ended June 30, 1999, and the audits of Sumner and Shelby Counties will be monitored for the year ended June 30, 2000.

The division reviewed 289 audit reports for the year ended June 30, 1999, submitted by certified public accountants for audits of county governments, authorities, boards, commissions, agencies, and special school districts. The division anticipates it will review 297 such reports for the year ended June 30, 2000.

Reviews of Funds Administered by District Attorneys General During 2000, the division conducted reviews of Fraud and Economic Crime Funds, Judicial District Drug Task Force Funds, and other funds the district attorneys general administer in the state's 31 judicial districts. Each review covered the period July 1, 1998, through June 30, 1999. The scope of each review was limited to the transactions of the individual funds and did not include the overall operation of the district attorneys' offices.

Reviews of County Correctional Incentive Program (CCIP) Tennessee Code Annotated, Title 41, Chapter 8, referred to as the County Correctional Incentive Act, provides counties financial incentives to house nondangerous felony offenders at local correctional facilities. The purpose of the program is to mutually benefit state and county governments by helping to alleviate overcrowding in state correctional facilities and reduce high operating costs, and to assist counties in upgrading local correctional facilities and programs. Counties participating in the program may be reimbursed at either a minimum statutory daily rate or a rate based on a county's "reasonable allowable cost" to house convicted felons.

The Division of County Audit conducts reviews of counties participating in the County Correctional Incentive Program. In performing the reviews,

the division tests the county's financial records and other supporting records pertaining to the Final Cost Settlement Reports. Testwork is also performed on the Correction Facility Summary Reports and State Prisoner Reports. Reviews were conducted in 24 detention facilities during the 1999-2000 audit year. As a result of the reviews, it was determined that the state had underpaid \$805,353 for seven facilities and overpaid \$67,097 for 12 facilities. The reviews of five facilities resulted in no over- or underpayments. The record-keeping system for three facilities did not allow us to make a reasonable determination of over- or underpayments, and a final cost settlement for these facilities was at the discretion of the Department of Correction. Subsequent monthly claims filed by the affected counties have been or are being adjusted to reflect the underpayments or overpayments.

#### Financial and Compliance Audit Process

The Division of County Audit performs the following general procedures as part of the financial and compliance audit process:

- Evaluates the entity's existing internal controls in the appropriate areas of operation.
- Confirms the accountability for receipts by examining, for example, tax rolls, state and federal revenue data, and letters of inquiry.
- Determines the appropriateness of disbursements by examining budget authorization, paid invoice files, purchasing files, payroll records, and other financial records.
- Determines the authorization for transactions by reviewing the minutes of meetings of county commissions, school boards, highway commissions, and various committees such as budget and finance, and purchasing.
- Determines compliance with federal regulations and state and local laws
- Obtains management's representations with respect to the financial statements, as well as the supporting accounting data, and other items of disclosure.
- Evaluates financial statement presentation to determine conformity with generally accepted accounting principles.
- Evaluates the validity of all evidence obtained throughout the audit process in order to formulate an opinion on the financial statements.

# Results of Audits and Reviews

#### **Financial and Compliance Audits**

Audits of financial transactions for the year ended June 30, 1999, conducted by the Division of County Audit disclosed cash shortages totaling \$16,964 in nine counties at the close of the audit period. The cash shortages were in the following offices or funds:

Benton County General Fund \$3,723 Decatur County Sheriff 410

Jackson County Clerk and Master	1,934
Marion County Sheriff	580
Maury County General Sessions Court Clerk*	1,292
Perry County Trustee	9,517
Rutherford County Clerk and Master	800

<sup>\*</sup>This shortage occurred on August 5, 1999.

The audits conducted by this division disclosed fund deficits of \$63,408,000 in 36 governmental fund accounts in 31 counties. These audits also reflected fund deficits totaling more than \$13,786,000 in 17 enterprise funds and two internal service fund accounts in 19 counties.

The division's examination of offices and departments in 87 counties resulted in several recurring audit findings summarized below. The number of counties in which the finding occurred is shown in parentheses following the finding.

- A system of central accounting, budgeting, and/or purchasing was not in use, frequently resulting in inefficient and uneconomical operations of various county offices and departments. (59)
- Property records and a self-balancing group of accounts for all general fixed assets were not maintained in accordance with generally accepted accounting principles. (83)
- Fund expenditures exceeded appropriations approved by the local governing body. (28)
- Purchasing procedures were not in accordance with controlling statutes. (30)
- Clerks of court failed to prepare and/or reconcile a trial balance of execution docket balances with cash journal accounts. (19)
- Drug control funds were not administered in compliance with statutory provisions. (12)
- Funds were not deposited within three days of receipt, as required by state law. (22)
- Depositories for county funds were not required to place securities in escrow in sufficient amounts to adequately protect funds on deposit, as required by state law. (13)
- Loans, notes, or lease-purchase agreements were not approved by County Commission and/or director of Local Finance. (22)
- Fees and commissions earned by the county clerk, clerks of court, and register were not remitted to the county in compliance with controlling statutes. (16)
- Inventory records of assets owned by the county were not maintained, as required by generally accepted accounting principles. (45)

- Deficiencies occurred in accounting/recordkeeping. (77)
- An internal control weakness resulted due to the inadequate segregation of duties for accounting personnel. (81)
- Purchase orders were not used or were not issued properly in the purchasing process. (39)
- The Sheriff's Office had booking deficiencies. (59)

Some of the specific findings disclosed in audits and reviews during the past year are summarized below and on the following pages.

### **Benton County Executive**

For the Year Ended June 30, 1999

At June 30, 1999, the county's General Fund had a cash shortage of \$3,723.45 resulting from salary payments that exceeded amounts authorized by state statutes. Three officials who left office on August 31, 1998—the general sessions judge, sheriff, and trustee—were overpaid because the payroll clerk miscalculated the number of payroll periods. The former trustee remitted his overpayment to the county; however, the former general sessions judge and the former sheriff have not repaid their respective overpayments of \$1,707.31 and \$2,016.14. Our office reviewed this cash shortage with the district attorney general.

#### **Bledsoe County Executive**

For the Year Ended June 30, 1999

The office had several irregularities in awarding and administrating the contract for county courthouse renovation. Competitive bids were not solicited properly, and accounting records did not reflect all obligations of the project. The construction contract did not place a limit on construction costs or the completion time of the project. The construction company's requests for reimbursement costs were not presented to the county architect for review and approval. The county executive did not require the construction company to post bond or other collateral, as required by state statute. Additionally, the attorney who represented the county also represented the construction company in its legal matters.

#### **Cocke County Trustee**

For the Year Ended June 30, 1999

The trustee did not record all investment purchases, redemptions, and investment income/loss, resulting in the understatement of investments on accounting records. Also, the office had deficiencies in maintaining accounting records. Some of these included the failure to post entries to and balance records monthly, errors in and inadequate documentation of adjusting entries, and the failure to reconcile monthly bank statements with general ledger account balances. Furthermore, the office had deficiencies in accounting for property taxes, such as not submitting delinquent property taxes to the delinquent tax attorney on time, not reconciling prior and current tax aggregates with unpaid tax receipts, and not prorating delinquent taxes at the rate approved by the County Commission.

#### **Coffee County Executive**

For the Year Ended June 30, 1999

The County Executive's Office did not properly maintain the accounting records of several funds and did not reconcile the cash balances of various funds with the trustee's balances. Several deficiencies in budget operations were noted, including expending Drug Control fund monies without the County Commission's approval, allowing General Fund expenditures and encumbrances to exceed appropriations, and also allowing General Fund appropriations to exceed estimated revenues and available funds. Appropriations in the Rural Debt Service Fund were significantly overstated, resulting in the County Commission's adopting an unnecessary 12-cent property tax increase. Another budget deficiency included offsetting certain expenditures with revenues, bypassing operating statements and the budget process. Furthermore, the office had a fund deficit of \$34,329 in the General Capital Projects Fund, purchased fingerprinting equipment for \$65,000 without soliciting competitive bids, did not file the required Report on Debt Obligations with Local Finance for a \$3,305,000 refunding bond, and did not maintain inventory records for general county government assets.

#### **Decatur County Sheriff**

For the Year Ended June 30, 1999

The Sheriff's Department had a cash shortage of \$409.78, which was the result of two cash bonds that were not deposited to the official bank account and were not on hand. On September 14, 1999, the sheriff liquidated this shortage by depositing personal funds of \$409.78 into the department's account. Also, a cash count in July revealed that 21 checks dated in May and June and totaling \$547.00 had not been receipted or deposited. Additional findings included not depositing funds promptly, not issuing receipts for all collections, not preparing an annual financial report, not completing some drug reports and forms, and not meeting the minimum 85 percent acceptance rate of fingerprints sent to the Tennessee Bureau of Investigation. Furthermore, the department's accounting records were not maintained adequately. The cash journal was not current, bank statements and cash journal accounts were not reconciled, and cash receipts and amounts deposited were not reconciled.

#### **Dickson County Sheriff**

For the Year Ended June 30, 1999

Our examination of the Drug Enforcement Program disclosed that the sheriff did not ensure adequate supervision, internal controls, and documentation for program funds. These weaknesses contributed to the office's inability to account for \$3,941 in the drug enforcement petty cash fund. Because of these deficiencies, we were unable to determine why funds were unaccounted for. Some of the specific weaknesses include drug agents' failure to follow the county's travel policy and creation of false documentation for travel monies spent, inadequate controls over agents' use of petty cash, supervisory personnel's failure to monitor the drug operation, failure to restrict access to sensitive automated information, some apparent forgeries of informants' signatures on drug payment forms, \$531 in excessive meal charges for three agents at a training seminar, and the failure to present some information on confidential informants for audit inspection.

#### **Dyer County Executive**

For the Year Ended June 30, 1999

Our audit of the Dyer County Executive's Office revealed numerous weaknesses. The Self-Insurance Fund had a retained earnings deficit of \$64,901 at June 30, 1999. The accounting records of various funds were not maintained in accordance with generally accepted accounting principles. Cash balances of the various funds were not reconciled with the county trustee, monthly lists of outstanding warrants were not prepared, numerous errors were made in posting revenues and expenditures, an excessive number of adjusting entries were posted to the accounting records without adequate explanation, accounting records were not maintained for certain funds, and numerous disbursements were not posted to the accounting records. Expenditures exceeded appropriations in the General Fund and General Debt Service Fund, and the General Debt Service Fund's actual fund balance at July 1, 1998, exceeded the estimated fund balance by a significant amount. In two instances, the required Reports on Debt Obligation were not filed with the state director of Local Finance. Also, the office did not maintain employee time, attendance and leave records.

#### Hickman County Finance Director and Road Superintendent

For the Year Ended June 30, 1999

Our audit of the Hickman County Finance Director's Office resulted in 11 findings. The School and Highway Departments did not comply with some centralization provisions of the County Financial Management Act of 1981. The Finance Office had numerous deficiencies in purchasing, payroll, computer operations, accounting, and management procedures. Expenditures exceeded appropriations in the General Debt Service and Ambulance Service Funds. Expenditures also exceeded numerous line-item appropriations in the General and School Federal Projects Funds. A budget was not prepared for the Drug Control Fund. Another finding disclosed an illegal transfer of \$150,000 from the General Debt Service Fund to the county's General Fund to alleviate the General Fund's cash flow problems. The General Capital Projects Fund had a cash overdraft of \$69,460. Other findings included the failure to deposit \$209,937 withheld from contractor payments into an escrow account, the lack of a disaster recovery plan for the office's data processing system, the misclassification of revenues and/or credit of revenues to the wrong fund, and numerous deficiencies in payroll records.

The Office of Road Superintendent also had deficiencies. Work totaling \$16,829 performed for another county department was not billed or documented properly, and work was performed on private property in violation of the Uniform Road Law.

# **Loudon County Accounts** and **Budgets Director**

For the Year Ended June 30, 1999

The director of the Office of Accounts and Budgets made several interfund loans, the majority of which were not approved by the County Commission and the state director of Local Finance and were not accurately accounted for on the accounting records. In addition to these loans, interfund loans of \$1,728,000 from previous fiscal years remained unpaid as of June 30, 1999. Also, many undocumented general journal entries were made to adjust the accounting records of various funds. Furthermore, the office did not use the budget as a management tool for controlling expenditures and projecting the

financial operations of the various funds of the primary government and the discretely presented School Department. Our audit disclosed numerous budget deficiencies.

#### Marion County Circuit and General Sessions Courts Clerk

For the Year Ended June 30, 1999

We disclaimed an opinion on this office's financial statements. Because of the questionable reliability of the clerk's statements regarding alleged misappropriation of office funds and her refusal to provide required information and assistance for the audit, we have no assurance that the office operated in compliance with generally accepted accounting principles and state statutes. At the request of the Office of District Attorney General, the Tennessee Bureau of Investigation conducted an investigation of the clerk's office.

Our audit included ten findings concerning problems in this office. Internal controls over collecting and disbursing funds were weak and resulted in several deficiencies. The execution docket trial balances generated by the computer system did not reconcile with general ledger accounts by material amounts, and the dockets did not provide a current balance for each use. Because execution docket trial balances did not reconcile with cash journal accounts, we could not determine if the clerk complied with provisions of the Unclaimed Property Act. The clerk did not require depositories holding county funds to pledge securities to protect funds that exceeded Federal Deposit Insurance Corporation coverage. Court costs on Chapter 797 speeding cases were collected on all cases, rather than only on those who failed to appear or answer the citation. In addition, we noted several information system weaknesses, including not developing a disaster recovery plan, not adequately restricting system access, not maintaining formal user documentation, and not storing system backups off site.

#### Maury County Road Superintendent and Circuit and General Sessions Courts Clerk

For the Year Ended June 30, 1999

The Maury County Road Superintendent's Office had deficiencies in its bidding process. In several instances, the department did not select the lowest bids for purchases of equipment and did not provide adequate documentation for choosing vendors with higher bids. Also, on some occasions, the department worked on private property, violating the Uniform Road Law, which prohibits the use of equipment, tools, materials, and employees on private property.

The Office of Circuit and General Sessions Courts Clerk could not locate a deposit of \$1,292.31. The clerk, who believed it had been thrown away accidentally, obtained replacement checks and replaced the missing cash by depositing personal funds of \$814.50 to the office's bank account.

# Perry County Trustee and County Commissioner

For the Year Ended June 30, 1999

The Perry County Trustee's Office had significant problems resulting from poor management. At June 30, 1999, the office had a cash shortage of \$9,516.90 that occurred during the former trustee's administration and resulted from his failure to deposit or otherwise account for some collections. Auditors and investigators from the Tennessee Bureau of Investigation found 78 checks totaling \$43,687

made payable to the trustee, and 59 of these checks were from one to seven years old. Fifteen checks totaling \$5,376 had been returned to the bank for insufficient funds, but records did not indicate whether attempts had been made to redeposit or follow up on them. In addition, the Trustee's Office had many accounting deficiencies, such as errors in posting, the failure to reconcile bank statements and cash journal accounts regularly, and the failure to file receipts properly. Our audit also revealed several weaknesses in the office's process of accounting for delinquent taxes. For example, the trustee did not file a list of delinquent taxpayers with the court for collection and did not report these delinquencies to the County Commission for its July 1996-99 meetings.

Our audit further revealed that the county leased the Perry County Nursing Home to a partnership that includes a county commissioner. The involvement of a county commissioner in this lease creates a conflict of interest.

### **Putnam County Executive**

For the Year Ended June 30, 1999

Our audit revealed deficiencies in the county's recycling center operations. The solid waste director entered into a three-year contract with a recycling contractor for the sale of corrugated materials at the recycling center without soliciting competitive bids, and he did not solicit bids for the purchase of a baler. The County Commission did not approve the lease-purchase agreement, and the county did not file a report on this debt obligation with the state director of Local Finance, as required by state statute. For another purchase, the county paid for baling wire by having the recycling contractor reduce revenues due the county. Also, the county did not properly monitor payments made to the recycling contractor through reductions in county revenue.

#### **Sequatchie County** Executive

For the Year Ended June 30, 1999

Nine findings resulted from our audit of the Sequatchie County Executive's Office. The General Debt Service Fund had a fund deficit of \$3,984 and a cash overdraft of \$12,216, and in the General Fund, expenditures exceeded appropriations by \$85,654. An interfund loan of \$50,000 from the General Fund to the General Debt Service Fund for the purpose of providing funds for retiring debt was not approved and retired properly. Proceeds from a \$150,000 revenue anticipation note issued for the General Fund were allocated to other funds without the approval of the County Commission and state director of Local Finance. In addition to these problems, the office did not have a formal purchase order system, did not maintain accounting records for funds administered by the Southeast Local Development Corporation, and had deficiencies in computer back-up procedures. Furthermore, the county executive operated the office under the provisions of the County Purchasing Law of 1983, Sections 5-14-201 through 5-14-206, Tennessee Code Annotated, but purchasing procedures should have been governed by Chapter 750, Private Acts of 1947, and Chapter 10, Private Acts of 1987.

# Weakley County Special Purpose Examination

October 20, 1999

A special purpose examination disclosed deficiencies in the operations of the Finance, School, and Highway Departments and the Consolidated Service Station in Weakley County. In the Finance Department, we found that the finance director's leave records and accumulation of compensatory time were not reviewed or approved by any supervisory authority. Other problems involved the use of county gasoline in employees' personal vehicles, payments to jail inmates for vehicle cleaning services, and the station's failure to recover its operating costs.

Our audit revealed further problems involving the School and Highway Departments. Employees used the highway and school garages to service and repair personal vehicles, and the school transportation supervisor used a county vehicle to haul his boat on weekends. At the highway garage, surplus materials were not sold in accordance with County Financial Management Committee policies, and employees used county gasoline in their personal vehicles when on county business, instead of being reimbursed per mile.

#### **Information System Reviews**

The following findings resulting from the information system reviews recurred in several offices or departments.

- Duties relating to the automated accounting functions were not properly segregated. Incompatible duties should be properly segregated to strengthen internal controls.
- Policies and procedures relating to routine computer operations were not documented. This documentation is needed to provide a basis for management control.
- A disaster recovery plan was not developed to assist the office or department in the re-creation of its data processing environment in the event of a major hardware or software failure, or temporary or permanent destruction of facilities. Without a formal, written plan, critical computerized applications could be disrupted indefinitely until the system could be repaired or a back-up facility could be found and made operational.
- Various software applications did not have sufficient application controls.
- Periodic system backups were not performed routinely.
   Furthermore, copies of system backups were not stored in secure, off-site locations. Adequate file retention and system back-up procedures are mandatory to guard against operational errors and disasters.

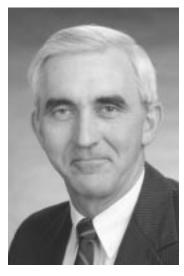
#### County Correctional Incentive Program (CCIP) Reviews

The costs to operate the correctional facilities were not reported in accordance with state guidelines for determining reasonable allowable cost. In some cases, unallowable costs were claimed, while in other cases allowable costs were not claimed. In numerous other cases, costs claimed were either more or less than the actual costs.

### **Division of Municipal Audit**







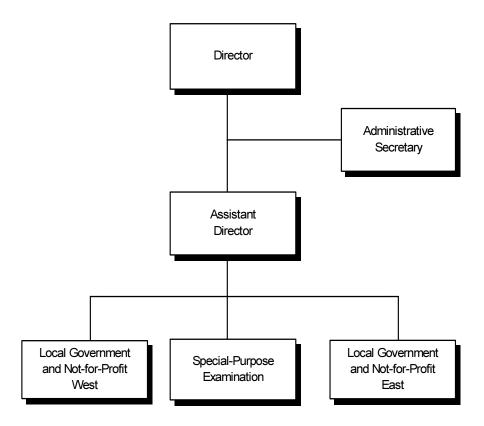
G. Paul Givens, CPA, CFE Assistant Director

The Division of Municipal Audit ensures that annual audits, required by state statute, are performed for all Tennessee municipalities, public school activity and noncentralized cafeteria funds, utility districts, housing authorities, and certain nonprofit agencies receiving grants from the State of Tennessee. In addition, the division investigates allegations of misconduct, fraud, and waste in local governmental units other than counties, as well as nonprofit agencies receiving state grants, and performs special-purpose examinations of the internal control structures and compliance of school activity and noncentralized cafeteria funds, utility districts, and municipalities.

#### **Audit Review Process**

Local governmental units (other than counties) and nonprofit agencies contract with independent certified public accountants to perform annual audits of Tennessee's 351 municipalities, 203 utility districts, 140 public school activity and noncentralized cafeteria funds, 87 housing authorities, and over 225 nonprofit agencies. The entities use a standard contract, prepared by the Comptroller of the Treasury, that must be approved by the Comptroller's designee in the Division of Municipal Audit before audit work begins. These audits must be performed in accordance with generally accepted government auditing standards and certain other minimum requirements prescribed by the Comptroller of the Treasury. In addition, the auditor must comply with certain other federal and state provisions.

#### **Division of Municipal Audit**



The Division of Municipal Audit reviews each audit report to verify that it adheres to applicable reporting requirements. If a local governmental unit or nonprofit agency fails or refuses to have an audit, the Comptroller may direct the Division of Municipal Audit, or may appoint a certified public accountant, to perform the audit. The division evaluates the audit working papers of certified public accounting firms that audit local governmental and nonprofit entities. If the firm's audit working papers are deemed substandard, the Comptroller of the Treasury takes appropriate action, which might include referral to the State Board of Accountancy. The division is responsible for monitoring over 2,000 nonprofit organizations that receive grants from the State of Tennessee; some of these organizations are required to have an audit of their entire organization. These audits are conducted by certified public accounting firms which contract with the division.

The division investigates allegations of misconduct, fraud, and waste in local governmental units (other than counties) and certain grant fund recipients. Special-purpose examinations are performed as a result of allegations received through the Department of Audit's toll-free hotline, routine audit reviews, and information received from certified public accountants or other state agencies. Upon completion of each examination, the Comptroller issues a report presenting documented

occurrences of improper activity and recommending corrective action. The report is forwarded to the State Attorney General and the local district attorney general for any legal action deemed necessary.

The division also conducts special-purpose examinations of utility districts, municipalities, and school activity and cafeteria funds. These examinations include a thorough review of the internal control structures and compliance with applicable laws. Municipalities are required by statute to maintain their records, at a minimum level, in accordance with the Internal Control and Compliance Manual for Tennessee *Municipalities*, prescribed by the Comptroller of the Treasury. Utility districts are required by state statute to follow the Uniform Accounting Manual for Tennessee Utility Districts, compiled by the Division of Municipal Audit. State statute requires schools to follow the *Tennessee* Internal School Uniform Accounting Policy Manual, compiled by the Tennessee Department of Education, the Department of Finance and Administration, and the Division of Municipal Audit. At the conclusion of a special-purpose examination, the division publishes a report which identifies internal control structure and compliance weaknesses and recommends corrective action. The examinations point out to municipal, district, and school officials the importance of sound internal controls and compliance with applicable laws and regulations.

Sections 68-221-1010 and 7-82-401g(1), *Tennessee Code Annotated*, require the Comptroller to refer financially distressed municipal wastewater and public utility districts to the state's Wastewater Financing Board or the Utility Management Review Board. After reviewing the audit reports, the Division of Municipal Audit will refer financially distressed facilities to the appropriate board. The board then reviews the current financial condition of the facility and its proposed plan for eliminating its financially distressed condition. If the board finds the facility's plan unacceptable, the board will recommend an alternate course of action. During the year ended June 30, 2000, 23 municipal wastewater facilities were referred to the Water/Wastewater Financing Board, and 13 utility districts were referred to the Utility Management Review Board. As a result, several utility districts and municipal water and/or sewer systems are now operating or are on their way to operating on a financially sound basis.

The division routinely provides technical assistance to local government officials and certified public accountants. This assistance often requires detailed research of financial accounting concepts and state and federal statutes.

#### Audit and Special-Purpose Examinations

For the year ended June 30, 2000, the Division of Municipal Audit performed 1,200 reviews of audit reports for local governmental units (other than counties) and nonprofit entities. Eighteen special-purpose examinations were released, and 9 special-purpose examinations were in progress. The 18 examinations included 9 municipalities, 3 public

	examinations involved allegations of fraud, waste, and abuse and revealed weaknesses in internal controls, no controls, or potential problem areas that created an environment for fraud. During the 2000 fiscal year, examinations revealed losses of at least \$311,868.24 due to fraud. Illegal activities exposed during fiscal year 2000 resulted in 5 indictments. Five cases are pending trial.
Results of Special-Purpose Examinations	Below are summaries of significant problems disclosed in special-purpose examinations:
Town of South Carthage	The former recorder pled guilty to theft of \$46,154, was sentenced to three years in prison (suspended), and was also ordered to make restitution to the town.
Douglas-Cherokee Economic Authority	The former bookkeeper entered into pretrial diversion for making unauthorized purchases of over \$20,000.
Town of Kimball	The former recorder was indicted for theft and official misconduct related to the apparent embezzlement of \$13,717 from the town.
Town of Medina	The former mayor pled guilty in federal court to one count of federal program fraud, among other charges, and agreed to pay restitution of \$45,032 to the city.
Memphis Police Department and Court System	Our special purpose examination resulted in 34 findings and recommendations related to the department's internal controls and compliance. The findings addressed numerous weaknesses including over \$43,000 paid to undocumented confidential informants; \$42,000 in travel expenses unaccounted for; and over \$250,000 in unclaimed confiscated cash not properly handled.
Subsidized Day Care Centers	The division performed special purpose examinations on six day care centers. The examinations revealed state food program payments of over \$200,000 to these centers for which they were not entitled.
Update	
Clay Gas Utility District	The project manager was found guilty on one count of extortion, three counts of official misconduct, one count of money laundering, and one count of theft.
Dyer Industrial Development Board	The board's attorney was convicted on two counts of theft related to the misappropriation of \$167,259.

schools, and 6 nonprofits. The majority of the special-purpose

Town of Samburg	The former recorder was indicted on three counts of federal program fraud and four counts of mail fraud but pled guilty to one count of federal program fraud in federal court. The recorder was fined \$3,000 and was ordered to pay \$37,000 in restitution to the town.
City of Germantown	The former municipal clerk was indicted for theft over \$60,000 but pled guilty to a reduced charge of theft over \$10,000. The clerk was ordered to pay restitution of \$69,457 to the city.

# **Appendix**

# Recognition for Excellence in Financial Reporting

The Certificate of Achievement for Excellence in Financial Reporting, issued by the Government Finance Officers Association, is the highest form of recognition in government financial reporting. Attaining this certificate represents a significant accomplishment. The following Tennessee governments and entities received this award for the year ended June 30, 1999.

State of Tennessee

**Anderson County** 

**Blount County** 

Bristol Tennessee Electric System

City of Athens

City of Bartlett

City of Brentwood

City of Chattanooga

City of Cleveland

City of Franklin

City of Germantown

City of Hendersonville

City of Johnson City

City of Knoxville

City of Lake City

City of LaVergne

City of Memphis

City of Oak Ridge (37 awards)

City of Tullahoma

City of White House

**Hamilton County** 

**Knox County** 

Memphis-Shelby County Airport Authority

Metropolitan Government of Nashville and Davidson County

Metropolitan Knoxville Airport Authority

Morristown Power System

Morristown Water System

Newport Utilities Board Electric Department

Newport Utilities Board Water and Wastewater Departments

**Rutherford County** 

**Shelby County** 

Tennessee Consolidated Retirement System

Town of Collierville

Town of Farragut

Town of Livingston

Town of Smyrna

# **Professional Recognition**

During the year ended June 30, 2000, Department of Audit staff passed certification examinations for Certified Public Accountant (CPA), Certified Information Systems Auditor (CISA), Certified Fraud Examiner (CFE), and Certified Government Financial Manager (CGFM).

Robert Allen	Municipal Audit	CFE
Katherine Anderson	State Audit	CFE
Penny Austin	County Audit	CGFM
Jeff Bailey	County Audit	CGFM
Mason Ball	State Audit	CFE
Walter Bond	State Audit	CPA
Mary Cole	State Audit	CGFM
Melinda Daniel	County Audit	CGFM
Jerry Durham	County Audit	CGFM
Michael Edwards	State Audit	CGFM
James Falbe	State Audit	CISA
Laura Fugate	State Audit	CPA
William Hancock	State Audit	CISA
Andrew Hawkins	State Audit	CFE
Kevin Huffman	County Audit	CGFM
Aaron Jewell	State Audit	CGFM
Philip Job	Municipal Audit	CFE
Wilma Johnston	County Audit	CGFM
Diana Jones	State Audit	CGFM
Joe Kimery	County Audit	CGFM
Herb Kraycirik	State Audit	CGFM
Amy Mallicote	State Audit	CGFM
Michael Mayhan	Municipal Audit	CFE
Jay Moeck	State Audit	CPA
Steve Phillips	State Audit	CFE
Scott Price	State Audit	CFE
Robyn Probus	State Audit	CPA
Vickie Robbins	County Audit	CGFM
Erick Rosa	State Audit	CGFM
Brent Rumbley	State Audit	CPA
Joseph Schussler	State Audit	CGFM
Kimberly Spencer	State Audit	CPA
Clare Tucker	State Audit	CFE
Andrew Way	County Audit	CPA
Kent White	County Audit	CGFM
Lisa Williams	State Audit	CGFM
Dena Winningham	State Audit	CGFM

#### **Professional Certification**

The department is proud of all its staff who have received professional certifications.

#### **Certified Public Accountant**

#### **Division of State Audit**

Katherine Anderson Aaron Jewell Ron Anderson Herb Kraycirik **Deborah Loveless** Mason Ball Catherine Balthrop Derek Martin Elizabeth Birchett Sammie Maxwell Debra Bloomingburg Sandra McSeveney Gerry Boaz Ron Paolini Lea Ann Boucher Steve Phillips Charles Bridges Chuck Richardson **Edward Burr** Julie Rogers Mary Cole Erick Rosa Donna Crutcher Joseph Schussler Michael Edwards Suzanne Smotherman Laura Fugate Scarlet Sneed William Hancock Kimberly Spencer Robert Harrill Chas Taplin Kandi Thomas **Gregg Hawkins** Arthur Hayes Clare Tucker Shirley Henry Patricia Wakefield Teresa Hensley Carla Wayman Marcia Holman Barbara White Dan Willis **Bob Hunter** 

#### **Division of County Audit**

Penny Austin Jan Page Gene Autry Gerald Poston Jeff Bailey Gary Ramsey Nolan Bradford Steve Reeder Sharee Brewer Vickie Robbins Bryan Burklin Anita Scarlett Melinda Daniel Tim Stansell Jerry Durham **David Sturtevant** Marie Elliott Lester Tackett Michael Ford Mark Treece Kevin Huffman Clifford Tucker Michael Hulme Andrew Way Wilma Johnston Kent White Joe Kimery Daniel Wilson Kelley McNeal Greg Worley

#### **Division of Municipal Audit**

Robert Allen Dennis Dycus
Rene Brison Paul Givens
Rebecca Bush Iris Haby
Bill Case Philip Job

Michael Mayhan	Jean Suh
Sheila Reed	Elaine Swyers

Katherine Anderson
Mason Ball
Melinda Crutchfield
Andrew Hawkins
Arthur Hayes
Bob McCloud
Glen McKay
Steve Phillips
Scott Price
Chas Taplin
Clare Tucker
Emily Wilson

**Division of County Audit** 

Jerry Gallemore Larry Taylor

**Bob Powell** 

**Division of Municipal Audit** 

Robert Allen Philip Job
Rene Brison Michael Mayhan
Dennis Dycus Elaine Swyers

Paul Givens

Certified Internal Auditor Division of State Audit

Glen McKay

**Division of County Audit** 

Brad Burke Richard Norment

Certified Computing Division of County Audit

**Professional** Jim Arnette

Certified Information Division of State Audit

Systems AuditorJames FalbeBob RiceWilliam HancockChuck RichardsonDeborah MyersJulie Rogers

Beth Pendergrass Dan Willis

**Division of County Audit** 

Jim Arnette

Certified Government Division of State Audit

**Financial Manager** Dean Agouridis Mary Cole Katherine Anderson Donna Crutcher Ron Anderson Michael Edwards Mason Ball **Arthur Hayes** Elizabeth Birchett Shirley Henry Debra Bloomingburg Teresa Hensley Gerry Boaz Marcia Holman Lea Ann Boucher Aaron Jewell Charles Bridges Diana Jones

Edward Burr Herb Kraycirik

**Deborah Loveless** Joseph Schussler Suzanne Smotherman Amy Mallicote Scarlet Sneed **Sharon Matheny** Sammie Maxwell Kandi Thomas Bob McCloud Clare Tucker Patricia Wakefield Glen McKay Sandra McSeveney Barbara White Ron Paolini Lisa Williams Beth Pendergrass Dan Willis Chuck Richardson Dena Winningham Erick Rosa Gayle Wortham-Hatch

Randy Salt

#### **Division of County Audit**

Art Alexander Joe Kimery Jim Arnette Carl Lowe Penny Austin Norm Norment Gene Autry Richard Norment Jeff Bailey **Bob Powell** Marvin Bond Lee Preston Nolan Bradford Ferman Pride Bryan Burklin Keith Rice Kathi Burriss Vickie Robbins Kathy Clements June Rogers Melinda Daniel **David Sturtevant** Lester Tackett Jerry Durham **David Frakes** Larry Taylor Mark Treece Jerry Gallemore Kevin Huffman Kent White Michael Hulme Horace Wiseman Wilma Johnston Greg Worley

#### **Division of Municipal Audit**

Dennis Dycus

### State Audits Released During the Year Ended June 30, 2000

# **Financial and Compliance Audits**

#### **State Departments, Agencies, and Institutions**

Alcoholic Beverage Commission

CAFR—1999

Clean Water State Revolving Fund

Comptroller of the Treasury

Court System

Department of Agriculture

Department of Children's Services

Department of Correction

Department of Education

Department of Employment Security

Department of Finance and Administration

Department of Health

Department of Human Services

Department of Labor

Department of Mental Health and Mental Retardation

Department of Personnel

Department of Revenue

Department of Safety

Department of Transportation

Department of the Treasury

Department of Veterans' Affairs

District Public Defenders Conference

**Executive Department** 

Local Government Group Insurance Fund

Military Department of Tennessee

Office of the Attorney General and Reporter

Post-Conviction Defender Commission

Single Audit—1999

State Funding Board Sewage Treatment Facilities Fund

State University and Community College System of Tennessee-

Central Office

**Teacher Group Insurance Fund** 

Tennessee 200, Inc.

Tennessee Advisory Commission on Intergovernmental Relations

Tennessee Board of Paroles

Tennessee Bureau of Investigation

Tennessee Consolidated Retirement System

Tennessee Council of Juvenile and Family Court Judges

Tennessee Higher Education Commission

Tennessee Housing Development Agency

Tennessee Human Rights Commission

Tennessee Local Development Authority

Tennessee Regulatory Authority

Tennessee Sports Hall of Fame

Tennessee State School Bond Authority

Tennessee State Veterans' Homes Board

Tennessee Student Assistance Corporation

Tennessee Wildlife Resources Agency

# Universities, Colleges, Technical Institutes, and Technology Centers

Austin Peay State University

Chattanooga State Technical Community College

Chattanooga State Technical Community College Foundation

Cleveland State Community College

Columbia State Community College

Dyersburg State Community College

East Tennessee State University

Jackson State Community College

Middle Tennessee State University

Motlow State Community College

Northeast State Technical Community College

Roane State Community College

Roane State Community College Foundation

Shelby State Community College

State Technical Institute at Memphis

Tennessee State University

Tennessee Technological University

Tennessee Technological University Dormitory Corporation

Tennessee Technology Center at Athens

Tennessee Technology Center at Covington

Tennessee Technology Center at Crossville

Tennessee Technology Center at Crump

Tennessee Technology Center at Harriman

Tennessee Technology Center at Hohenwald

Tennessee Technology Center at Jacksboro

Tennessee Technology Center at Jackson

Tennessee Technology Center at McKenzie

Tennessee Technology Center at McMinnville

Tennessee Technology Center at Memphis

Tennessee Technology Center at Murfreesboro

Tennessee Technology Center at Newburn

Tennessee Technology Center at Oneida

Tennessee Technology Center at Paris

Tennessee Technology Center at Pulaski

Tennessee Technology Center at Ripley

Tennessee Technology Center at Shelbyville

Tennessee Technology Center at Whiteville

University of Tennessee Radio Station (WUOT)

University of Memphis

University of Tennessee

#### **Community Services Agencies**

Chattanooga/Hamilton County Community Services Agency

Davidson County Metropolitan Community Services Agency

East Tennessee Community Services Agency

Northeast Community Services Agency

Northwest Community Services Agency

South Central Community Services Agency

Southeast Community Services Agency

Southwest Community Services Agency

Upper Cumberland Community Services Agency

#### **Political Subdivisions**

Delta Human Resource Agency Southwest Human Resource Agency

#### Medicaid/TennCare Audits

#### **Health Care Facilities**

Humphreys County Nursing Home Margie and Thomas Winfrey Center Michael Dunn Center Stones River Center

#### **Managed Care Organizations**

Premier Behavioral Systems of Tennessee, LLC Tennessee Behavioral Health, Inc. Tennessee Managed Care Network Vanderbilt Health Plans, Inc. Volunteer State Health Plan, Inc.

#### **State Health Insurance Plans**

#### **Performance Audits**

Board of Professional Responsibility
Commercial Vehicle Enforcement Division, Department of Safety
Department of Environment and Conservation and Related
Environmental Boards
Department of Labor and Related Entities
Department of Personnel
Human Rights Commission
Inmate Incarceration Costs and Security Staff Morale
Tennessee Commission on Aging
Tennessee Emergency Management Agency
and Related Commission and Compacts
Tennessee Higher Education Commission
Tennessee Wildlife Resources Agency/Tennessee Wildlife Resources
Commission
Title VI Implementation Plans

# **Special Investigations**

Department of Agriculture – Theft of \$8,702.15 by the Administrative
Secretary of the Henderson County Soil Conservation District
Department of Children's Services – Falsification of State Insurance
Forms and Subsequent Submission of Improper Claims on Behalf of an Ineligible Recipient
Department of Children's Services – Improper Authorization of Daycare

Department of Children's Services – Improper Authorization of Daycare Services by a Clerk in the Memphis Region

Department of Labor and Workforce Development, Nashville Special Projects Office – Improper Use of State Office Equipment and Resources by the Office Manager

Department of Transportation – Allegations of Improprieties Involving Road Construction and Railroad Crossing Upgrade Contracts

Department of Transportation – Theft of Property from the Knoxville Garage

Department of Transportation Right-of-Way Division – Improper and Inept Manipulation of Contracts to Obtain Computer Programming Services and Computer Equipment

Middle Tennessee State University – Improper Awards by the Financial Aid Director

Nashville State Technical Institute – Theft of \$4,679.61

Project Return, Incorporated – Improper Use of Agency Credit Cards for Personal Charges

Tennessee Department of Employment Security – Improper Authorization of \$1,810 in Unemployment Benefits and Solicitation of a \$540 Kickback by an Interviewer II

Tennessee Rehabilitative Initiative in Correction Central Garage,
Department of Safety Title and Registration Division, Tennessee
State University Cooperative Agricultural Research Program – Theft
of State Property

Tennessee State University – Overpayment to Metropolitan Nashville Police Officers for Security Services, Misappropriation of \$2,000 From Bank Deposits, and Misappropriation of \$19,474 From Cash to Card Vending Machines

## County Audits Released During the Year Ended June 30, 2000

## Financial and Compliance Comprehensive Annual Financial Reports For the Year Ended June 30, 1999

#### **Counties**

Anderson Dickson Jackson Bedford Dyer Jefferson Benton Favette Johnson Bledsoe Lake **Fentress** Blount Franklin Lauderdale **Bradley** Gibson Lawrence Campbell Giles Lewis Cannon Grainger Lincoln Carroll Greene Loudon Carter Grundy Macon Cheatham Hancock Madison Chester Hardeman Marion Claiborne Hardin Marshall Clay Hawkins Maury Cocke Haywood **McNairy** Coffee Henderson Meigs Crockett Henry Monroe Cumberland Hickman Montgomery Decatur Houston Moore DeKalb Humphreys Morgan

Obion Rutherford Unicoi Union Overton Scott Van Buren Perry Sequatchie **Pickett** Sevier Warren Smith Po1k Wayne Putnam Stewart Weakley White Rhea Sullivan Roane **Tipton** Williamson Trousdale Robertson Wilson

#### **Special School Districts**

Paris Special School District McKenzie Special School District

#### **Special Reports and Limited Reviews**

Bradley County Fire Service (For the year ended June 30, 1999)

Fentress County Highway Department (For the period September 1, 1994, through August 31, 1998)

Reviews of Fraud and Economic Crime Funds, Judicial District Drug Task Force Funds, and Other Funds Administered by the District Attorneys General for the First Through the Thirty-first Judicial Districts (July 1, 1998, through June 30, 1999)

Weakley County Finance Department, Consolidated Service Station, Highway Department, and School Department (Special Purpose Examination)

## Municipal Audit Special Purpose Examinations Released During the Year Ended June 30, 2000

#### **Financial and Compliance**

Alvin C. York Agricultural Institute

#### **Entity Examined**

Ashland City Primary School–Cheatham County School System Cheatham County Comprehensive High School–Girls Basketball Account

City of Newport

Dodson Branch School-Jackson County School System

Douglas-Cherokee Economic Authority

Early Childhood Enrichment Day Care Center

Gallaway Nursing Center

Koinonia Child Care Center

Memphis Police Department and Court System

Riverview Kansas-Myra Driefus Day Care Center

Sandy Vogel Lewis Neighborhood House Day Care Center

Tanglewood Church of Christ Child Care Center

Town of Bethel Springs

Town of Iron City

Town of Kimball

Town of Medina (Certain Records)

Town of Monterey (Procedures)

Town of South Carthage

#### Comptroller of the Treasury Department of Audit Schedule of Revenues, Expenditures, and Reserves For the Years Ended June 30, 2000, and June 30, 1999

		Year Ended June 30, 2000						Year Ended June 30, 1999								
		State Audit	_	County Audit	_	Municipal Audit	_	Department Total	_	State Audit	_	County Audit	_	Municipal Audit	_	Department Total
RESERVES	\$	47,966.62	\$_	-	\$_	-	\$_	47,966.62	\$_	24,180.04	\$_	-	\$_		\$_	24,180.04
REVENUES																
Appropriation Departmental revenues		7,045,200.00 3,859,740.25	\$	4,791,200.00 741,344.40	\$	1,101,000.00 228,464.36	\$	12,937,400.00 4,829,549.01	\$	6,306,408.10 3,547,076.62	\$	4,459,800.00 722,652.84	\$	1,086,000.00 227,068.98	\$	11,852,208.10 4,496,798.44
Total revenues	\$ <u>        1</u>	10,904,940.25	\$_	5,532,544.40	\$_	1,329,464.36	\$	17,766,949.01	\$_	9,853,484.72	\$_	5,182,452.84	\$_	1,313,068.98	\$_	16,349,006.54
Total reserves and revenues	\$ <u>         1</u>	10,952,906.87	\$_	5,532,544.40	\$_	1,329,464.36	\$_	17,814,915.63	\$_	9,877,664.76	\$_	5,182,452.84	\$_	1,313,068.98	\$_	16,373,186.58
EXPENDITURES																
Personal services Employee benefits		6,876,229.96 1,451,008.26	\$	3,750,107.99 829,754.39	\$	724,128.02 155,708.70	\$	11,350,465.97 2,436,471.35	\$	6,519,886.89 1,418,909.61	\$	3,412,327.64 783,844.09	\$	739,475.88 153,426.27	\$	10,671,690.41 2,356,179.97
Total payroll	\$	8,327,238.22	\$_	4,579,862.38	\$_	879,836.72	\$_	13,786,937.32	\$_	7,938,796.50	\$_	4,196,171.73	\$_	892,902.15	\$_	13,027,870.38
Travel	\$	494,377.03	\$	379,207.73	\$	74,479.28	\$	948,064.04	\$	497,428.80	\$	321,160.35	\$	79,233.81	\$	897,822.96
Printing, duplicating, and film processing	*	68.137.78	•	78.798.63	•	4,561.41	•	151,497,82	•	59,425.60	•	85.270.65	•	7.546.52	•	152.242.77
Communication and shipping costs		15,214.31		26,444.98		7,329.51		48,988.80		18,539.37		29,336.34		10,002.99		57,878.70
Maintenance, repairs, and service		7,238.51		128.00		93.50		7,460.01		27,649.82		89.00		1,440.32		29,179.14
Professional and administrative services		104,641.40		70,809.11		2,924.77		178,375.28		143,896.92		84,332.11		13,356.81		241,585.84
Supplies		244,319.22		19,873.87		4,788.75		268,981.84		39,580.41		16,925.36		13,470.04		69,975.81
Rentals and insurance		313,328.52		105,337.80		50,629.44		469,295.76		306,592.52		83,294.38		49,939.44		439,826.34
Motor vehicle operations		4.33		-		-		4.33		-		-		-		-
Awards and indemnities		611.80		218.50		43.70		874.00		652.50		181.25		36.25		870.00
Grants and subsidies		54,703.97		5,785.44		163.46		60,652.87		17,959.95		6,290.00		2,055.75		26,305.70
Equipment		-		-		-		-		49,901.98		22,362.02		-		72,264.00
Billings and Records Management	_	37,413.31	_	15,526.45	_	6,697.01	-	59,636.77	_	-	_	-	_		_	<u>-</u>
Total other	\$	1,339,990.18	\$_	702,130.51	\$_	151,710.83	\$_	2,193,831.52	\$_	1,161,627.87	\$_	649,241.46	\$_	177,081.93	\$_	1,987,951.26
Total current year Prior-year expenditures	\$	9,667,228.40 44,928.65	\$	5,281,992.89	\$	1,031,547.55	\$	15,980,768.84 44,928.65	\$	9,100,424.37 24,180.04	\$	4,845,413.19 -	\$	1,069,984.08	\$	15,015,821.64 24,180.04
Total expenditures	\$	9,712,157.05	\$_	5,281,992.89	\$_	1,031,547.55	\$_	16,025,697.49	\$_	9,124,604.41	\$_	4,845,413.19	\$_	1,069,984.08	\$_	15,040,001.68
Excess of reserves and revenues over expenditures	\$	1,240,749.82	\$_	250,551.51	\$_	297,916.81	\$	1,789,218.14	\$_	753,060.35	\$_	337,039.65	\$_	243,084.90	\$_	1,333,184.90
Reserves carried forward for encumbrance Amount reverting		7,006.28 1,233,743.54	\$	- 250,551.51	\$	- 297,916.81	\$	7,006.28 1,782,211.86	\$	47,966.62 705,093.73	\$	337,039.65	\$	243,084.90	\$_	47,966.62 1,285,218.28
Total	\$	1,240,749.82	\$	250,551.51	\$	297,916.81	\$	1,789,218.14	\$	753,060.35	\$	337,039.65	\$	243,084.90	\$	1,333,184.90

# NSAA

# National State Auditors Association

State of Tennessee Comptroller of the Treasury Department of Audit July 1, 1999 Through June 30, 2000

# National State Auditors Association

August 29, 2000

John G. Morgan Comptroller of the Treasury Suite 1500, James K. Polk State Office Building 505 Deaderick Street Nashville, TN 37243

Dear Mr Morgan:

We have reviewed your agency 's system of quality control. The purpose of our review was to obtain reasonable assurance of the agency's compliance with government auditing standards. This review included audit reports issued from July 1, 1999 through June 30, 2000. We conducted our review in accordance with the policies and procedures for external quality control reviews established by the National State Auditors Association (NSAA). Our review included tests of selected audit engagements for compliance with the agency 's quality control policies and procedures as deemed necessary in the circumstances.

In performing our review, we considered the general characteristics of a system of quality control as described in the external quality control review guidelines issued by NSAA. Such a system should be appropriately comprehensive and suitably designed in relation to the agency's organizational structure, its policies, and the nature of its functions. Because individual performance can vary in any state audit organization, adherence to all policies and procedures may not be possible in every case. However, adherence to prescribed policies and procedures is expected in most situations.

In our opinion, the agency's system of quality control for audits issued from July 1, 1999 through June 30, 2000 was operating effectively and provided reasonable assurance of compliance with generally accepted government auditing standards.

Team Leader

National State Auditors Association External Quality Control Review Team

Concurring Reviewer

National State Auditors Association External Quality Control Review Team

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